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'Denunciation' of Corruption 'Rising'

93CM0499A Beijing ZHONGGUO QINGNIAN
[CHINESE YOUTH] in Chinese No 9, 1 Sep 93 pp 610

[Text] Since we ushered in the Year of the Rooster, the chorus of anti-corruption denunciation has been rising by the day. Leaders on the CPC Central Committee have repeatedly stressed the need to combat corruption unwaveringly. People in all walks of life have written article after article attacking corruption for poisoning the social climate, endangering social stability and the great cause of reform and openness. As for discipline inspection, supervisory, and judicial organs, they have been hitting out constantly, cracking one major case after another. Amid this clamor for action, the escalating trend of corruption has been checked.

In the final analysis, however, stemming out corruption totally depends on the steady improvement of the socialist market economy and a democratic system, an all-out effort by the party and government at all levels, and active involvement by a billion people, particularly young people.

Editors and writers from ZHONGGUO QINGNIAN recently went to a host of places including Beijing, Guangdong, Shandong, and Henan where they visited factories, offices, schools, and military barracks and listened to what young readers had to say about corruption. The young people's words conveyed a force, a deep loathing for evil. An impatience to see China improve itself was detectable even in some of the more cynical and radical remarks.

We consciously decided on a policy of anonymity in publishing the young people's words. (Headings were also supplied by the editor.)

Stop Corruption and I Can Do a Better Job

The marketing group director of a state-run shopping center

I embrace wholeheartedly a speech, reported in the newspapers, by a leader on the CPC Central Committee about cracking down on corruption. After our shopping center introduced contracting, wages became mere pocket change. What really matters is bonuses. The monthly sales quota for our shopping center is almost 100,000 yuan. If you do not meet the quota, you collect just a niggardly wage. Someone told me I must cultivate ties with government organizations and major customers if I wanted to meet the quota. And so I did, contacting the organizations and leading customers. Several months passed; it did not work. Then someone reminded me: Have you given others some benefits? Only then did I see the light. From then on, whenever I visited a government organization, I would ask the person to come out instead of meeting him in his office and walk him through all the benefits. Success was instant. A number of major customers placed a one-time order worth more than 10,000 yuan each with our shopping center. In return we gave them a fee of 100 yuan or more. Needless to say, the wool

still comes from the sheep's back. The fee, down to the last penny, came from the customer's check and was reflected in his receipt. And so we captured a number of major accounts, our sales figures went up, and our bonuses soared. Sometimes my conscience feels a little uneasy. But if I do not do it, how can I make it? How can the people in my group make it? You wonder if our leader knows this. I have never asked, but I figure he knows. Everybody is doing it these days; he is probably just turning a blind eye to it. I am doing it now but deep down I am quite realistic about it. Say, for instance, there are 100 businesses in commerce which are equally corrupt. If you start cracking down on them, beginning with the big fish, small fry like me would probably be No 90. And after you get rid of all the corrupt people, who would be around to run the commercial sector? You can say this is corruption, but I think it would be hard to bring it under control. Corruption has become a social disease, hard to cure. Either one of these two scenarios may take place in the future. In one scenario, a well developed market economy and a sound social mechanism exercise some kind of restraint upon corruption. In the other scenario, corruption gets worse and worse. Needless to say, I am all for curbing corruption. If should be gotten rid of, I can do a better job in a more relaxed manner.

Someone Should Study the "Slip Culture"

Staff member in a central ministry

Corruption in society today comes in all shapes and forms. The variety, it may be said, is endless, from using connections, entering by the back door, offering bribes, taking bribes, and demanding bribes, to abusing public office for private gains, misappropriating or wasting public funds, and indulging in wining and dining, etc. Reports suggest that of the many companies in the nation today, the most profitable are those which are well connected. By well-connected, we mean companies that have ties with big shots who can shut out the heavens with one hand. Our nation is going all out to create a market economy, one of whose requirements is fair competition. Yet when people seek personal gains by abusing public office, solicit bribes, or accept bribes, fair competition becomes mere fantasy. We frequently hear a person boast with pride, "I have got another slip of paper." The content of the slip of paper of course has nothing to do with the regular channels through which planning departments at all levels are supposed to get things done. It is secured through special connections. Armed with a slip of paper, you can lay your hands on things unavailable to other people. You can effortlessly get a leg up on your competition and make a killing on the market. Of course, the slip comes with a price, which naturally ends up in the pocket of the person who issues the slip. Around power, it may be said, a web of corruption is being woven, with slips hiding the filthy souls of many a person who abuses public office for personal interests, cottons up to the powerful, or enters by the "back door." These days China's wine culture, food culture, and tea culture have all become objects of

study. I cannot help but wonder why nobody is doing any research on slip and slip culture that is riding roughshod over the nation.

Take, for instance, a number of cadres in our unit. With a monthly salary of just several hundred yuan, they nevertheless smoke brand-name cigarettes and drink imported wines. Their houses are expensively and luxuriously furnished. They live just like tycoons in society. How can they afford all that with what they earn in wages? So it is obvious all that money that goes to pay for his food, drinks, and furniture is not acquired legitimately. Although you know it is ill-gotten gains and feel indignant about it, you have no proof, not having actually seen them solicit bribes or take bribes. So I hope the state would investigate those government officials whose actual lifestyle is grossly out of step with their incomes. When that happens, it would be a lot easier to get things done.

Crack Down On the Corrupt

A university teacher

Anti-corruption. It started out as a whisper in the early 1980's and subsequently became a loud cry. Yet over a decade of hollering has not produced satisfactory results. In the final analysis, there is not a single corrupt phenomenon in society that is not closely related to government workers at all levels and in all departments operating in violation of the law and profiting themselves illegally.

Every single form of corruption is an indication of people abusing public office for personal gains. Why have most of the cases of corruption uncovered in the newspapers been committed by officials in government organs and finance and materials departments? Precisely because these departments have power and people in charge of these departments are in a position to trade power for huge material interests effortlessly. Our society is presently in transition and we are trying to create a market economy. At a time when the mechanism for fair competition has yet to be created, the market economy's characteristic of competition invariably manifests itself as jockeying for support from the privileged. How do you seek support? By corroding government bodies and trading money for power.

Corruption is the lubricant of social development, some people say. As I see it, corruption is indeed a lubricant, but a corrupt type of lubricant. It can indeed stimulate the economy up to a point, creating a kind of prosperity. Fundamentally speaking, however, it will militate against sound economic development. In China today, that has already happened, as demonstrated mainly by inequitable distribution, rehashed companies acting monopolistically, large amounts of state assets being misappropriated and wasted, economic disorder, etc. Eradicating corruption, therefore, is indeed a task that brooks no delay and is imperative under the circumstances.

In my opinion, there is still time to combat corruption. The conditions are favorable. Note that there is great resolve on the part of the CPC Central Committee, the man in the street hates corruption, the very marrow of his bone, and anti-corruption is the common aspiration of the people. Most party members and cadres are good people. With their loathing for corruption, they are the mainstay of the anti-corruption forces. Except for a handful who are extremely corrupt, even those who have been on the take are ambivalent about what they do. Most of these people are not beyond salvation. The key thing is that we must take practical and effective measures.

To me, it is not that we do not know what to do but that we have not made a genuine effort to do something. To put it bluntly, we have been half-hearted in our war on corruption, which in effect amounts to tolerating and emboldening the corrupt. It is this fact that the masses are most critical of and find most disappointing. The top priority now, therefore, is to crack down upon the corrupt. Those who should be imprisoned should be imprisoned, those who should be executed must be executed. Only thus can we win the confidence of the people, deter the corrupt, and prevent corruption from spreading.

Can Cadres Discipline Their Children Properly?

A people's policeman in the detachment of traffic police of a city

Corruption, to my mind, always has something to do with the backwardness in China's current economy. Take our traffic police force, for instance. Frankly, we are some of the poorest people in society. These days I make just a little over 300 yuan a month in wages and bonuses.

"Live off rule violations, live off accidents, live off land misuse, live off people who apply for permits, live off drivers." This is how society sums up corruption in the traffic police. In some localities there is deep resentment for the traffic police. I believe these corrupt phenomena do exist. Personally I guarantee that I do not do these shameful things but I am powerless when others do them or about the different kinds of corruption in society? Why? In the past, everybody knows, all you needed was to get the official seal affixed one time and you were all set. What about now? I don't know how many official seals you need to affix, the only thing I know is that an official seal is not as good as a private seal. You know the right people, then you can get things done easily. Otherwise you'll have a hard time. You want to be part of the market economy but have no money? Forget it. You will not be able to do a thing.

High salaries, some argue, will promote honesty. I don't think this is a reliable way to go. What really works is restraint and supervision. Whatever the issue, take away restraint and supervision and everything would become just empty talk. The CPC Central Committee has now declared war on corruption. I think the timing is right.

Still I have not vented all my anger. Are the people below tackling the problem effectively and competently? Who are the corrupt people? Do we have the guts to take on those who are truly corrupt? Can our cadres discipline their children properly? Do they know what their children are doing outside? How much money have they made illegally? Would they have the guts to rein in their own children, friends, and relatives, and publicize their scandals?

Please Tell Me How Some Cadres Made Their Fortunes

A manager in a state enterprise

I have gotten quite numb about the word "corruption." Blame everything on the Chinese folk saying: "When there are too many fleas, you don't worry about being bitten."

This sounds incredible. To mark the anniversary of our factory a while ago, we invited a few cadres from the department in charge above to come and take part in the celebrations. It was fine to celebrate, we were told, but we must do so in the dance hall in the outskirts. We were slightly taken aback but we got the message. The dance hall in the outskirts was a much more interesting place what with its lineup of hostesses in all shapes and sizes. How can the facility in our own factory measure up? Naturally a visit to the dance hall comes with a steep price, but if that was what the people in charge at a higher level wanted, how could people below like us easily turn them down? No way. In the end we had no choice but to take them to the dance hall in the outskirts for a night of revelry.

Here in Guangdong entertaining people at a higher level in this manner has become increasingly popular. A friend who works in a bank told me about the three-step procedure that would be set in motion as soon as a supervisor turns up. Step one: sauna bath in a privately owned beauty parlor; step two: work on him at the most upscale local restaurant; and, to top it all, present everybody with two packages of Dazhonghua cigarettes before he leaves. Of course there is more to the sauna bath than just taking a bath. The true intent is to check out the hostesses, women who have come to Guangdong from other provinces in search of work. While sexual intercourse may not actually take place during the bath, fondling and cuddling are an inevitable part of the ritual. You may be astonished at all this and wonder why the trend has been escalating all the time. Well, let me ask you: How can you stop it when countless cadres are hooked on it?

A former classmate now working in a government organization in the provincial capital once told me, not without a touch of pride, how he made 20,000 yuan overnight. A subordinate enterprise issued each person in the department 5,000 internal shares priced at the original value. He sold the shares instantly before even paying for them. Another relative of mine who works in the office of a top leader in the special economic zone

told me inadvertently that her office constantly receives original shares from enterprises. I asked her how many shares she had bought. She said she had lost count. In any case she never turns down any offer and buys as many as there are available. Then she turns them over to her grandfather, who lives with her. A retired mathematics teacher, her grandfather is now fully in charge of trading of her shares. Ever since stock (whether internal shares or shares traded on the stock market) made its first appearance in Guangdong, a new form of corruption, seemingly respectable and aboveboard, quickly emerged and took root in society. This new form of bribery involves distributing original-value shares among cadres in the unit in charge at the higher level. You call this bribe-offering and bribe-taking? Well, they deny it, calling it trading securities in the open. You don't think this is bribe-offering and bribe-taking? The share purchaser makes a windfall simply by reselling what he has just bought. The turmoil on the Shenzhen stock market between the spring and summer of last year shed light on just this kind of unprincipled conduct.

Long before the civil service system and new wage system were introduced in Guangdong, some of our cadres in the province all somehow got rich ahead of others. Six years ago a fellow villager who was a secretary in the county government in our hometown managed to raise enough funds to build an attractive four-story house. A few days ago an acquaintance of mine who is a deputy division chief in the labor bureau in our city purchased a "dageda." A former classmate of mine works in the highest body in the special economic zone. His elderly father sells crate after crate of upscale foreign cigarettes to other parts of the country throughout the year... My next question, therefore, is this: Are our judicial organs holding off filing charges against those cadres who abuse public office for personal gains and pervert justice for a bribe until they have made 7 million yuan, the same amount made by Ceng Lihua [2582 0448 5478] of Guangdong, who has just been captured?

I Am So Disgusted I Want To Curse

A worker in a group of electric appliance companies

We are all front-line workers who labor all day. All the talk about fighting corruption does not do much good. It may be that we have seen and heard so much corruption that we have become indifferent. It is said that everybody thinks a little like Mr. Q these days. If other people are corrupt, that is because they have the wherewithal. Since we have neither power nor money, we cannot afford to be corrupt. Whom can you blame? Still people need to make a living. How can we continue to take a Mr. Q attitude toward corruption? There are times one feels so disgusted with it one wants to curse.

There is this girl who happens to be the daughter of one of our master workers. She is still in the juvenile reform school. Do you know why she was sent there? You will feel both indignant and sad after hearing this story. She was then attending senior high school and was about to

take the college entrance examination. One day the father of a classmate of hers was hospitalized, suffering from stomach cancer and in need of surgery. But the factory where the classmate's parents worked had long gone out of business. Family members barely eked out a living. How could they come up with the money to buy presents? Everybody in the class chipped in and raised several hundred yuan to send to the doctor in charge of the operation. A few days later word came back that the money was misappropriated by the middleman before it made its way into the surgeon's hands. The family was overcome with grief. The classmate and several other classmates went to console the family. It was a sad scene and she too could not help but shed some tears. When the crying was over, she said, "Let me take care of this."

As the incident was beginning to fade from everybody's memory, she suddenly disappeared. Only later did they learn that she had been arrested by public security personnel. U.S. dollar bills had been found in the red packet she sent to the doctor, money she and another person stole in a restaurant catering to foreigners.

If we judge the case as it stands, it was indeed an error on her part; she should not have stolen money from the foreigner. But think more deeply. Can we blame her alone? Would it have been necessary for her to steal from a foreign guest but for the corrupt social climate?

What Scares Me Most Is Officials Who Take Your Money But Don't Get Things Done

Owner of a private enterprise

Corruption is like a piece of meat. Whenever we fight corruption, we go after the maggots, forgetting the meat is still there.

I have been in business for over 10 years and have visited a dozen countries. Corruption is nothing new. It exists everywhere. Nor is it a bad thing through and through. In fact my decision to go into business was a lesson I learned from corruption. Ten years ago, my brother returned from the armed forces in Inner Mongolia, where he had been living and working. For two years he was unable to land a job and stayed home. Later I was told to try sending presents. My family was still very poor at the time, so we swallowed our pride and borrowed 30 yuan, a big sum at the time, to buy gifts for the powers that be. In just a few days things started happening. The whole incident taught me that money is very important and that I must struggle to make loads of it.

As a private business owner, there are two things I fear most. You have not provoked or angered anybody. But suddenly some kind of inspector knocks on your door, maybe somebody in charge of water or electricity or garbage. They arbitrarily find an excuse and cut off your water or electricity supply for an hour or two. When you encounter this kind of situation, your first reaction is a sense of shock. Then you obsequiously nod your head and put a smile on your face. This is what I find most humiliating. All my life I have been most reluctant to

kowtow to anybody. But there is no other way. Be defiant and you will only get yourself into trouble. So after the visitor is gone, I swing into action right away to find out his connections, background, likes, friends, and acquaintances. Then I send him a gift or a red packet through an intermediary. But you must never have the goodies delivered to his house directly. If you do that, he might chide you, saying you are trying to corrupt him and declaring that he would not be corrupted. So you must send the presents through one of his more reliable friends, taking pains to find the right pretext so as to put him at ease, secure in the knowledge that nobody would find out. Frankly, imagine what would happen if I could devote to my business the time and energies I am now spending on these complex things?

This is one thing I fear most. The other thing is even more awful: The money and effort you have expended may not necessarily pay off. Here we are different from the rest of the world. Foreign officials too are open to bribery most of the time. But what you don't have to do is wasting energies beating about the bush with them hypocritically. As soon money changes hands, his efficiency would multiply, making you feel that your bribe is money well spent. Not here, though. In China, many people accept presents but do not do a thing. Some people dare not touch the big shots but specialize in harassing the little people like us who have a little money. I know this person who is now a friend. He is what we call a civil servant. He told me an unspoken rule where he worked: Burn job sticks for God, worship Buddha, do business with those on an equal level, and if it is an honest man with no connections, squeeze as much out of him as possible. You tell me, what should we call this?

What is corruption? We need to draw up some criteria, but that would be hard to do; since our circumstances are all different, we apply different criteria. In deciding whether or not someone is corrupt, personally I don't think we should consider whether or not he has been wining and dining or going on trips at public expense. Rather we should see whether or not he lives up to his responsibilities and does an effective job. Provided his unit flourishes under his leadership and as long as he does not visit the brothel or gamble, a leader should not be considered corrupt even if he indulges in a little wining and dining, drives a nice car, and lives in a nice house.

In my opinion, the worst form of corruption occurs when mediocre people are allowed to exercise power. What are mediocre people? Incompetent people. Many people do not accomplish much in their entire lives; their resumes list no outstanding achievements. The saving grace is that these people do not hold official positions. Their greatest virtue is honesty. They are Mr. Nice Guy who never contradict their superiors. They make good warehouse clerks or reception office attendants. Never, however, could they assume leadership position. It would be sheer fantasy to think that these people can become leaders without harming the people and the nation in the

process. Whoever promotes cadres based on the criteria of honesty and obedience are corrupt. The worst that wining and dining can do is wasting some material resources. No big deal. But if people get the impression that one will be promoted as long as one is honest and obedient, there is no hope that the quality of the nation would improve. How can we nurture our abilities when everybody aspires to be honest and obedient? When incompetents are in charge of important things, units are mismanaged and so will the nation.

I must appear quite corrupt to everybody, dining, wining, and entertaining at public expense day in and day out. Seldom do I pay my way at the dance hall or karaoke. You know how much these places cost at a minimum. Who can afford them if one cannot use public funds? So I must be very corrupt. But it is on these occasions that I strike deal after deal, instantly recouping the public funds I have spent.

I admit some of my practices add fuel to the flames of corruption. But they do not constitute the worst kind of corruption, because after all is said and done, I have generated a lot of wealth for the state. Our company's former manager is an old cadre sent here as a result of administrative streamlining in the bureau. They simply dumped him on us without any preparations. He did not know anything, not product specifications, not export quotas. He had no idea how to sign a contract. All day long he sat in the office, sipping his tea, reading his newspaper, not doing anything practical. When it was time to knock off he went home in a special car. He did not wine or dine at public expense. Nor did he indulge in dissipation. Yet never has he earned a dime for the treasury. The upshot is that the company became demoralized and many key workers left, taking their customers with them.

In fact people like our former manager are everywhere. Although you cannot say they are bad people, they are certainly useless. It is not only corrupt but downright criminal to let these people occupy positions of leadership, draw high salaries, collect generous bonuses, and go to and from work in a special car, while not generating a penny in revenue for the state.

There Is Corruption Here Too

A major in a certain PLA unit

Corruption in our unit manifests itself in two ways: abusing public office for public gains and bureaucratism. People use their power to help relatives and fellow villagers join the PLA, get promoted to cadre, transfer to the volunteers, and join the party. I don't know the situation in other units, but I do know that in our unit, particularly the logistics department, there are indeed soldiers who got there by virtue of their connections or through the "back door." Even worse, there is a female soldier who has been in our unit for over a year but we still have never seen her enlistment file. Why? It turns out that she is the sister-in-law of one of our unit's leaders. On the strength of a person's word alone she was

able to don a military uniform and become a soldier. What accounts for the poor caliber of soldiers today? In my opinion, a major factor is enlistees coming in through the "back door." These days a majority of the soldiers in the units came from the rural areas. Many of them, particularly those who joined the PLA in economically underdeveloped areas, hope to transfer to the volunteers after staying in the units for a few years. Following such a transfer, he would be entitled to commodity grain and perhaps even become a government cadre. From a soldier's personal perspective, such aspirations are understandable. If the units manage to deal with them fairly and honestly, the enlistees would naturally apply themselves to their work and strive to excel. But such is not the case in certain units today. You want to transfer to the volunteers, join the party, enrol in school, or become a cadre? You have no connections, nobody ready to give you a little help? Then forget it. A junior enlistee from a small place. What connections can you possibly have? None. Then you have to cultivate some ties. Look up fellow villagers, acquaintances, friends, relatives. How? Send a gift when a gift is called for, send money when money is called for.

The worst signs of bureaucratism in the unit can be found among the leading cadres themselves. In the past our unit had a fine tradition of officers and men identifying with one another. Even high-ranking cadres often sought to understand what was happening at the grass roots and gave work guidance. Some cadres, namely those who are not all that senior, put on airs and rarely mingle with people below them. This sounds like a joke, but in our regimental-level unit, the division commander visits us at most once or twice a year. Every time he shows up, he is welcome like a head of state. When you stay high up there all the time without trying to understand the situation below, of course you have to rely on reports alone, and people who do the reporting naturally tell you what you like to hear. Problems, even major problems, may be piling up below, but you don't know. We have a unit where over 100 incidents big and small occurred within a year, ranging from soldiers fighting and coming to blows to guns being fired and people getting wounded. These things took place right under the nose of the leading organ. Only when troubles spilled outside did the seriousness of the situation come to light. Do you call this corruption? Of course.

Corruption Traces Its Origin To Lack of Regularization

A surgeon in a municipal hospital.

Society has many complaints about hospitals these days, calling it one of the darkest trades. I would like to say a few things through ZHONGGUO QINGNIAN.

I am a doctor. More than anything else, I abhor trading a person's life for favors. I believe a vast majority of doctors would not hold their patients' lives hostage either. In a hospital the most valuable labor is mental labor on the part of doctors. A surgeon's work is strenuous mental labor that also carries a good deal of risk.

Everybody knows that. Be that as it may, operating fees are often the lowest. In other words, a surgeon's labor is cheap. A MRI costs 1,800 yuan, a CAT scan over 1,000 yuan, even drugs for treating a cold could set you back more than 40 yuan. What about surgical fees? An appendectomy costs 75 yuan, a sexual reversal procedure, a mere 200 yuan. An ordinary physician like myself in a general hospital makes a grand total of 400 to 500 yuan a month, including miscellaneous subsidies and bonuses. Assuming we perform about 20 procedures a month on the average and that we do nothing else, it would mean that the cost of a procedure averages just 25 yuan.

To say all that is not to suggest that when hospitals accept red packets, there is no corruption involved. Accepting red packets, after all, is not legal, not something that takes place in the open. When a transaction occurs under the table, the boundaries often get murky; it is hard to make out what is right and what is wrong. This allows the doctors who use the scalpel as their bargaining chip to fish among troubled waters. These people are indeed evil but they are extremely rare. If you ask me, corruption has two parents. One is the fact that many things are not done in the open or regulated by any rules. Take doctors accepting red packets, for instance. Why not make it open and above-board to the extent that it is justifiable? Why not regulate it to the extent that it is justifiable, so that there are rules people can follow? Some hospitals these days are already listing up-front the fee of each surgical procedure, factoring in the doctor's labor as they set prices. Patients must pay the fee listed. If the doctor then demands additional money from the patient, he would be violating the rules and subject to punishment. Second, many of our functional departments and power organs fail to live up to their responsibilities and properly regulate what they are supposed and authorized to regulate. The result is a power vacuum. When that happens, power, instead of being a prerequisite for getting something done well, becomes the sliding weight of a steelyard. You want to use my power to get your thing done? Let us first do a little weighing. The more powerful one is, the heavier the steelyard, and the heavier the present one must put on the pan. You want more examples? Each one of us has a bellyful of examples.

In this manner corruption has come to resemble a snowball that is getting bigger and bigger until it hits the masses. I don't mean to sound ungrateful, but it is the patient who often takes the initiative to give his doctor a red packet, even forcing it on the latter. This puts many doctors in an awkward situation. I understand that some patients offer red packets out of gratitude; a good operation is often life-saving. But on many occasions patients labor under a misconception; they fear that if they do not stuff a red packet into the doctor's hand, they would not be operated on properly. Nowadays more and more people subscribe to the notion that nothing gets done if you don't spend money or send gifts. Who is willing to lose the life of a loved one for failing to send a gift? This is a chicken-and-egg situation. Which comes first, the chicken or the egg? I came across this saying in a book a few days ago, probably made by a Nobel Prize winner: "Power does not corrupt. It is fear that corrupts. It is the fear of losing power that corrupts those who are in power. It is the fear of being abused by those in power that corrupts the victims."

I do not wholeheartedly embrace the practice of rounding up a handful of individuals and beefing up education for the masses whenever they crack down on corruption. To me the key lies in establishing rules and regulations, creating an order without delay, and making some of the more reasonable practices part of the normal order, such as paying commissions and tips. There will then be fewer loopholes for corruption.

Only When Millions of People Are All of One Mind Can We Eradicate Corruption

A worker in a municipal environmental protection bureau

You may talk about it, detest it, condemn it. But since we do not live in a vacuum, we cannot but have to face up to society, adapt to it and accommodate it. Otherwise, what are you going to do? I believe there are indeed some negative phenomena in society. Everyone of us is responsible. If you don't come forward to combat it, he does not come forward to combat it, and we all keep quiet, those who are corrupt will become even more blatant. Isn't that true? In short, when millions of people are all of one mind and make concerted efforts to eradicate corruption, our country will be able to move forward faster.

NATIONAL AFFAIRS, POLICY

Report on Transforming Enterprise Operational Mechanism

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[Article by Zhang Xiaowen (1728 2556 2429), Economic System and Management Research Institute, State Commission for Restructuring Economic Systems: "Survey Report on Shandong's and Zhejiang's Implementation of 'The Regulations'"]

[Text] *Since the State Council's publication, promulgation, and implementation of "Regulations for the Transformation of Operating Mechanisms in Industrial Enterprises Under Ownership of the Whole People," theoreticians have discussed these regulations fully and in detail, but seemingly little examination and study has been devoted so far to the main problems encountered in implementation of "the Regulations" and the remedial actions we should take. In May 1993, personnel from the Natural Science Fund's key project task force for "Systems Analysis and Applied Research on the Vitality of China's State-Owned Large Enterprises," conducted a survey in conjunction with a State Council survey team on how well "the Regulations" had been implemented in Shandong and Zhejiang provinces. Here we publish the survey report written by Zhang Xiaowen of the Economic System and Management Research Institute State Commission of the State Commission for Restructuring Economic Systems in the hope of attracting people in all walks of life to study and analyze this problem in order to promote further implementation of "the Regulations."*

Survey Report on Implementation of "the Regulations" in Shandong and Zhejiang

1. Status of Implementation of "The Regulations"

Following their promulgation, the provincial CPC committee and the provincial government in both Shandong and Zhejiang provinces paid close attention to "the Regulations." They made implementation of "the Regulations" a key task. Once general agreement was reached about how to proceed, they assigned leaders to give close attention to the task and do real work. They actively set about doing a large amount of work related to implementation of "the Regulations," which produced marked results primarily in the following several regards:

- (1) CPC committees and governments at all levels paid close attention, making implementation of "the Regulations" the "number 1 project."

Following promulgation of "the Regulations," both Shandong and Zhejiang set up a leadership team for the transformation of enterprises operating mechanisms and implementation of "the Regulations" in the province. These teams were headed by a deputy governor, ranking

comrades from provincial CPC committee and provincial government units concerned serving as deputy team leaders. An office was also set up in the provincial economic committee. Each of the cities in both provinces also set up leadership teams and action agencies for implementation of "the Regulations," which were responsible for organizing and coordinating the work. Leaders at all levels in Shandong Province made implementation of "the Regulations" a "number 1 project" to which they devoted close attention and on which they performed real deeds. Once "the Regulations" were promulgated, Shandong Province convened the provincial government standing committee and the provincial CPC committee standing committee to study them. It also convened telephone conferences with countless people throughout the province in a general mobilization and general deployment of personnel to conduct indoctrination and propaganda, and to implement "the Regulations." It required ranking leaders at all levels and in all units to make implementation of "the Regulations" their central task. Provincial CPC and provincial government leaders frequently led persons in charge of departments concerned to conduct surveys and study at the grassroots level and in enterprises where they urged along and guided implementation of "the Regulations." The Zhejiang provincial CPC committee and provincial government convened a provincewide work committee on the transformation of enterprises operating mechanisms, which mobilized fully and laid specific plans for implementation of "the Regulations." The provincial CPC committee secretary, the provincial governor, and other leaders held several panel discussions. They conducted surveys and studies at the grassroots level where they urged along and guided work. Each of the cities and prefectures in the two provinces also made specific assignments for full implementation of "the Regulations." They adopted a series of measures and took concrete steps that genuinely improved organizational leadership for implementation of "the Regulations."

- (2) Widespread indoctrination, propaganda, and training about "the Regulations" to lay a good foundation for full enforcement of "the Regulations."

The Shandong and Zhejiang provincial CPC committees and provincial governments called upon governments and government agencies concerned at all levels, as well as enterprises to study "the Regulations" thoroughly to master the basic ingredients and the essence of "the Regulations." In this connection, concentrated study, indoctrination in specific topics, panel discussion exchanges, knowledge competitions, propaganda columns, radio and television broadcasts, and blackboard newspapers were used for widespread propagandizing, education, and training. Shandong Province made "the Regulations" part of its "2.5" plan for spreading information about the law to increase understanding of the legal system at every level, and in every government agency and enterprises. Propaganda organs made propagandizing "the Regulations" a major emphasis, applying various propaganda tools to the continuous, large scale.

and emphatic propagandizing of the spirit of "the Regulations." They reported and provided indoctrination about activities and role models in implementation of "the Regulations," "the Regulations" thereby coming to permeate people's thinking. More than 2,800 management personnel at the deputy plant manager level and above from large and medium size enterprises throughout the province took training. Hangzhou City proceeded from general study and propaganda to the running of training classes. It organized reporting meetings and discussions of specific topics. It also used radio and television broadcasts, and newspapers and magazines to conduct widespread propaganda, thereby enabling a further emancipation of thinking, a unification of perceptions, an updating of ideas, and the formation of a general consensus about the importance and the urgency of implementing "the Regulations" throughout the city from top to bottom. This work laid a broad mass foundation and ideological foundation for full enforcement of "the Regulations."

(3) Diligent formulation of "Enforcement Methods," or "Enforcement Opinions," with the writing of articles that linked implementation of "the Regulations" to local realities.

Shandong Province began drafting "Enforcement Methods" for implementation of "the Regulations" in September 1992. After 12 discussions and revisions, the draft was forwarded to the State Council organ concerned for ratification, and on 13 November 1992, it was published for implementation. Zhejiang Province began drafting of "Enforcement Methods" for implementation of "the Regulations" in October 1992. After 10 revisions, the Zhejiang Provincial government promulgated it for implementation in March 1993. A survey of enforcement of the "Enforcement Methods" shows good results. Implementation of "the Regulations" has played a concrete role in guiding transformation of enterprises operating mechanisms. The "Enforcement Methods" that the two provinces have drew up embody the no-retreat, only-advance principle. They enhance and refine provisions of "the Regulations" in various regards. For example, Shandong Province ruled that joint venture and cooperative venture enterprises, or enterprises engaged in the three forms of import processing and compensation trade [fertilizer, fodder, and fuel] are generally to make their own decisions. When the provincial government prescribes that they file reports requesting approval, the government units concerned must institute a speedy examination and approval procedure, and complete applicable procedures within 10 days. Should approval not be granted within this period, approval will be deemed to have been granted. In the perfection of provisions regarding enterprises' rewards and punishments mechanisms, the age limit on employment may be increased for plant managers who have completed production and administration tasks and who enjoy the support of staff members and workers. Zhejiang Province's "Enforcement Methods" contain a section

about "enterprise assets and their management methods," which provides for the province's establishment of a state-owned assets administration coordination committee. In connection with the lightening of enterprise burdens, the regulations prescribe that raising of funds or collections of fees from enterprises, enterprise inspections, comparison and appraisal campaigns, campaigns to select the best, goal attainment campaigns, wage increase, contract signing, and testing campaigns are to be approved by the provincial government unless otherwise provided by the law and State Council regulations.

While diligently drawing up provincial "Enforcement Methods," all provincial level departments in Shandong and Zhejiang provinces, as well as some cities, prefectures, and department also drew up enforcement opinions for implementation of "the Regulations" and associated rules and regulations, breaking new ground in some regards. As of the present, 18 provincial agencies in Shandong, including its Economic Committee, Planning Committee, and Personnel Department have produced associated coherent measures. The cities of Qingdao, Weifang, and Qingdao have drawn up enforcement opinions for implementation of "the Regulations" that relate "the Regulations" and the provincial "Enforcement Methods" to the situation existing in each of the cities. In Zhejiang province, 10 prefectures and cities, including Hangzhou, Huzhou, Quzhou, Wenzhou, and Jiaxing, have issued opinions or associated policies. These regulations express the principle of "only advance, no retreat." They emphasize further realization of enterprises right to make their own operating decisions, building and improving the motivation mechanism, strengthening the restraint mechanism, protecting plant managers' exercise of authority according to law, moving enterprises toward markets, and transforming government functions. They are geared to supplementing actual circumstances, making implementation of "the Regulations" more manageable. An example is "Various Views About the Realization of Enterprise Operating Rights in Implementing 'the Regulations'" that Hangzhou City prepared. It contains 20 specific provisions for the realization of operating rights. The most important ones are returning to enterprises the rights that "the Regulations" prescribe as belonging to enterprises; perfecting second round contracting, permitting enterprises to increase their wage-related [gong gua 1562 2171] coefficient frequently on the basis of the increase in their economic returns, and to change little by little over a period their withholding of a portion of wage increase-related total wages [zonggua fenti 4920 2171 0433 2251] to total withholding of total wage increase-related wages [zonggua zongti [4920 2171 4920 2251], prescribing a motivating policy in which "the total wage bill is tied to the reduction of losses" for enterprises that are losing money; and simplification of approval procedures for the reform of enterprises' "three systems." The views for implementation and the inauguration of associated policies of the various jurisdictions for implementation of

"the Regulations" create fine conditions for improvement of enterprises external environment, and intensifying enterprises internal reform.

(4) Substantive progress was made in putting in place the 14 enterprise rights in making operating decisions, the leading position of enterprises and their understanding of the meaning of making one's own decisions markedly increasing as a result.

After "the Regulations," and the provincial "Enactment Methods" went into effect, CPC committees and governments at all levels devoted themselves unrelentingly to making sure that enterprises had the right to make their own operating decisions. While urging government to simplify administrative procedures for the delegation of authority, they supported and encouraged enterprises to make full and good use of their decision making authority, substantive advances in enterprises' practice of their rights resulting. Survey and analysis of 1,663 large and medium size enterprises in Shandong Province show an 8:4:2 ratio in the application of the 14 operating rights, meaning that eight of the 14 operating rights were fairly well applied, enterprises fairly satisfactorily exercising their right to make decisions about production and operation, their right to set prices for products and labor services, their right to buy materials, their right to set up internal organizations, their right to distribute retained earnings, their right to make their own investment decisions, and their right to assign manpower as they see fit. Four of the rights that were partially applied were the right of enterprises to apportion wage bonuses, the right to manage personnel, the right to dispose of assets, and the right to form partnerships and mergers. Two of the rights were not applied well, enterprises expressing displeasure about their right to import and export, and their right to refuse to pay assessments. A survey was recently conducted in Zhejiang Province as to how well the 14 rights to make operating decisions have been applied to 1,204 industrial enterprises within budget there. The enterprises self-evaluation, and analysis by the authorities in charge show a general 5:5:2 ratio in application of the regulations. Five of them had been applied or substantially applied. Application of the right to sell products, the right to buy materials, the right to make their own production and operating decisions, the right to set up internal organizations, and the right to set prices for products and labor services showed 96, 95, 94, 91, and 90 percent compliance in the enterprises surveyed. Most felt that five of the regulations had been substantially applied. The right to make investment decisions, the right to distribute wages and bonuses, the right to apportion retained earnings, the right to administer personnel, and the right to dispose of assets had been exercised in 76, 75, 73, 69, and 67 percent respectively of all enterprises surveyed. Two of the provisions of "the Regulations" had been partially implemented, 59 and 55 percent of the enterprises surveyed having applied the right to form partnerships and mergers, and the right to assign manpower. Two were mostly not applied. The right to import and export, and the right to

refuse to pay assessments was not exercised in 77 and 82 percent of the enterprises surveyed. The survey showed that the degree to which enterprises exercised their right to make their own operating decisions varied quite a bit according to the extent of their reform and opening to the outside world, local government ability to bear financial burdens, enterprises method of operating assets and the economic returns made, as well as the degree of attention of leaders.

A survey of two provinces and six cities shows both government and enterprises generally reporting problems with enterprises failure to exercise their right to import and export, and their right to refuse to pay assessments. The failure to exercise their right to import and export runs counter to government policy provisions. The state prescribes that an enterprise may apply for the right to import and export only when its exports reach \$1 million. Such a high makes enterprises lose interest in exporting. For example, the Jinan No 4 Machine Tools Plant exported approximately \$200,000 worth of goods annually, selling them in the United States and Germany. Today, it exports only through foreign traders who serve as agents. Consequently, the enterprise's costs have increased and it does not obtain a flow of information. This makes the firm very apathetic. Enterprises that meet the export quota find their right to export is delayed interminably. Take the main plant of the Shaoxing Distillery in Zhejiang, for example, which has been trying unsuccessfully for five years to gain the right to export from the provincial foreign trade authorities. Such enterprises only bear responsibility for providing merchandise, their negotiations with foreign traders being handled by foreign trade agencies. The problem of foreign trade departments underrating quality, forcing down prices, and sequestering enterprises funds is an extremely common one that directly impairs enterprises' economic returns. It works against the exchange of information between enterprises and foreign traders on product quality, technical standards, sale prices, and the development of different lines of merchandise. It is extremely detrimental to the expansion of foreign sales and the development of enterprises. Although some enterprises have exporting and importing rights, their export quotas are stringently limited. Industrial enterprises are also not accorded the same treatment that foreign trade enterprises receive on tax rebates. The right to refuse payment of assessments was the one of the 14 rights that enterprises universally reported as not exercised. One might say that enterprises find it difficult to speak out. Although the number of brazen exactions are fewer than formerly, the number of hidden exactions presented in new guises has increased steadily. In actual practice, it is difficult to distinguish which are exactions and which are not. Since the law is not strictly enforced, "authority being stronger than the law," some enterprises "suffer in silence." One example was the Jinan Chemical Industry Plant, which paid assessments totaling 300,000 yuan, or 10 percent of its profits, in 1992. In Zhejiang Province, a certain silk mill paid conference fees amounting to 14,800 yuan just for

participating in six ideological and political work study meetings at various levels. The various assessments increase enterprises' burdens to the serious impairment of their normal production and operation. In addition, they abet unhealthy tendencies in industry that foul the social atmosphere. Effective actions must be taken to halt them.

With the gradual exercise of the right to make their own operating decisions, enterprises' conception of the legal system and their understanding of themselves as main entities have gradually improved. A number of classic enterprise have emerged that dare to, and are adept at, applying the rights and the legal means that "the Regulations" bestow to maintain their own legal rights and interests. An example is the Binhou Piston Plant in Shandong Province, which displays a sign at its main entrance that reads, "No Admittance to Unjustified Fund Raisers" in forceful expression of opposition to the three unjustified [unjustified assessments, unjustified fee collections, and unjustified raising of money]. On several occasions, the plant ousted through the plant's main gate people who had entered under false pretenses to make unjustified assessments. Acting on the basis of the authority that "the Regulations" and the "Enactment Methods" conferred on it to make its own investment decisions, the Taian Distillery spent more than 7 million yuan of its own money to expand the scale of its Taishan Tequ Liquor production and to develop new products. In 1992, this distillery's sales revenues totaled 68 million yuan, and it was hailed as the enterprise having the finest economic returns in the whole country. In 1993, it invested another 70 million yuan in technological transformation to lay a firm foundation for the enterprise's faster development.

Despite the definite progress made through enterprises' exercise of their right to make their own operating decisions, substantial difficulties encumber their complete exercise of this right. It must be realized that those rights that can be easily exercised have been substantially put in place; those that remain to be exercised are some very tough nuts. Further exercise of some rights to make independent decisions relate to some deep seated reform problems. In a discussion group, everyone felt that implementation of "the Regulations" had reached the stage where an assault must be launched on the remaining holdouts. The principle of "no retreat, only advance," must be followed, actions taken to intensify reform further to apply every one of the 14 rights to make independent operating decisions.

(5) New Progress in Enterprises' Readjustment of Their Organizational Structure

During 1992, 247 enterprise mergers occurred in Zhejiang Province. In the course of these mergers, 122 of 294 enterprises to be merged were wiped out because they were losing money, 259 million yuan of their assets in being transferred to the surviving enterprises. Enterprise blocs were formed in accordance with the principle of

government guidance and voluntary enterprise participation. As of the end of 1992, registered enterprise blocs in the province numbered 114, 23 of them province-approved enterprise blocs. In 1993, the province approved the development of another 14 enterprise blocs. In 1992, one state-owned enterprise (the Shaoxing No 1 Plastics Plant) went bankrupt. Shandong Province had established 166 enterprise blocs, and it has set up another 32 since 1992. Enterprises that have closed, halted production, merged, or shifted to other lines of production number 168. This includes 56 first rate enterprises that merged with 58 second rate enterprises. Sixteen enterprises closed or halted production; 37 changed to other lines of production; and one went bankrupt. As a result of these closings, production halts, mergers, and shifts into other lines of production, more than 200 million yuan worth of fixed assets and 250,000 square meters of plant buildings were put to better use. Every city and prefecture also set about readjusting enterprises' organizational structure, making substantial progress in this. Since last year, for example, Hangzhou City has conducted two mergers of enterprises under municipal control, a total of 46 enterprises being merged. As of the present, a total of 105 mergers involving 218 enterprises have taken place citywide, and administrative subordination relationships and lines between different industries have begun to be broken down in the merged enterprises. Weifang City in Shandong got rid of the "three immutables" to coordinate and spur some economically strong enterprises and companies. They cut across industrial lines, ownership lines, and taxation payment channel lines. Some enterprises that were facing difficulties or losing money were annexed or merged into other enterprises, and 26 industrial enterprises under country or higher level administration closed, halted production, merged, or shifted to other lines of production. This meant the better employment of more than 200 million yuan of assets and nearly 20,000 staff members and workers. Rational readjustments of enterprises' organizational structure fostered the production of hot selling goods, development and expansion of the economies of scale, and better allocation of products and resources, which spurred regional economic development, industry as a whole thereby being used to better advantage.

(6) Various actions were taken to simplify administration and delegate authority, advances made in the transformation of government's functions.

The overall situation in the two provinces suggests that government and official institutions at all levels made new advances in the transformation of their functions and in providing services in accordance with the principles of separation of government administration and enterprise management. The government did a good job of macromanaging enterprises without micromanaging them, thereby creating a better external climate than formerly for enterprises to enter markets. First, all provincial (and municipal) CPC committees and provincial (and municipal) governments made a policy decision

that government would delegate authority to enterprises. In 1992, the Shandong Provincial CPC Committee and the Shandong Provincial government issued two policy documents: "the 12 Articles" and "the 20 Articles," and they directed that government agencies are to completely relinquish their authority over enterprises in one fell swoop with no interim retention of authority. Following promulgation of "the Regulations," the provincial CPC committee and the provincial government directed that enterprises might put into effect forthwith in accordance with "the Regulations" all provisions spelled out in "the Regulations" without waiting for a formal government document, no agency being permitted to block them from so doing. Government agencies at all levels took concrete actions to simplify administration, delegate authority, and transform their functions as their particular circumstances warranted. For example, Weifang City issued a ruling that administrative cadres in enterprises were no longer to be appointed by the government but selected by the enterprise, plant directors (or managers) being empowered to select administrative cadres at the deputy plant level in accordance with prescribed procedures. Units in charge of collections and fees were included among the main units subject to revenue and pricing agency inspections in order to bring a firm halt to various unjustified assessments such as unjustified levying of fees, unjustified collections of fines, and unjustified raising of funds. Municipal CPC organization departments, personnel bureaus, manpower bureaus, fiscal bureaus, price administrations, and revenue bureaus delegated authority for the hiring of manpower, wage distributions, transfers of staff members and workers, cadre transfers, and pricing of their products, thereby enabling enterprises further exercise of their decision making authority. Government agencies concerned in Qingdao simplified their procedures, improved their efficiency, and reduced the number of administrative levels to make life easier for enterprises. For example, one of the 10 articles in the simplified procedures that the municipal planning bureau issued provided for just a single official authorization and one office collecting fees, thereby shortening the time required to get approvals from planning agencies. Ningbo City called for the delegation of "three authorities," and the making of "four transformations." This delegation of "three authorities" included delegation to enterprises of examination and approval authority for investment in technological transformation, delegation of cadre administration authority, and delegation of authority for enterprises to make their own production and operating decisions. The "four transformations" were in "ideological concepts, work emphasis, work methods, and work style." Spot checking of the goal of transforming 35 government and industry control functions showed enterprises as generally reporting a major change in the past situation they found when they went to a government office of "closed doors, difficulty finding anyone to talk to, nasty language, and difficulty accomplishing anything." Transparency has increased, and efficiency in the handling of matters has risen markedly. Second, government agencies have actively

paved the way and built bridges for the transformation of enterprise mechanisms. They have done a good job of providing services, and of speeding up the simplification of administration and the delegation of authority. To date, Shandong Province has delegated more than 150 authorities. The provincial economic commission has decided that technical transformation projects for which local jurisdictions, agencies, and enterprises raise the money themselves are all to be examined and approved by municipal or prefecture economic commissions or agencies in charge of enterprises. Examination and approval authority for transformation projects that employ "grafting" for which the total investment is less than \$30 million is to be delegated to prefectures and municipalities; and 60 percent of the technical development funds recouped for relending are to be turned over to municipalities and prefectures for their use. The number of industrial products whose price is controlled by the province has been reduced from 351 in 1992 to 54 in 1993, an 85 percent reduction. In the removal of the three unjustifieds [unjustified assessments, unjustified fee collections, and unjustified raising of money], 115 fees and fines were ordered scrapped, and 119 fund raising projects cancelled. This reduced enterprises burdens by 780 million yuan. The Shaoxing municipal government fostered a market system. Starting with development of the local economy, it has begun to make Shaoxing a fairly large light and textile industry city in China. This will provide enterprises opportunities to compete in the market. Third is better supervision and inspection. Provincial and municipal discipline inspection and control departments made ensuring execution of government orders, urging government agencies to simplify administration and delegate authority, protecting the legal rights and interests of enterprises, and ferreting out and punishing violations of discipline and the law in implementing "the Regulations" the focus of supervision and inspection, and in the handling of discipline enforcement cases by way of clearing away obstacles to implementation of "the Regulations." In April, the Ningbo Municipal Discipline Committee and the Control commission worked together with the municipal economic commission to inspect how well government departments were enforcing "the Regulations." During February and March 1993, leaders of the Shandong Provincial Discipline Commission and the Control Department led special teams on an agency-by-agency inspection of show well 16 provincial agencies implemented "the Regulations" and the "Enactment Methods," simplified administration and delegated authority, and transformed their functions. These teams commended or criticized the agencies as their performance warranted. Dezhou and Jining launched a campaign in which "daughters-in-law" criticized "mothers-in-law," [a reversal of the usual situation] more than 200 industrial and commercial enterprises evaluating 59 government agencies. The result was that five agencies were evaluated as "untrustworthy units" and stigmatized. The municipal CPC committee and the municipal government issued a circular notice criticizing these agencies, and set a time limit for them to correct matters. Fourth

was an inspection of the operation of state-owned assets, a good job done of administering affairs that government should administer. "The Regulations" provide that once governments transform their functions, emphasis should be placed on good management of state-owned assets. In keeping with this requirement, every province and city conducted bold examinations and tests. Zhejiang Province's "Enactment Methods" specifically provide for the province's establishment of a state-owned assets coordination commission. Qingdao City ran a pilot project for reform of the state-owned assets control system in the city's First Bureau of Light Industry. It abolished the First Bureau of Light Industry and set up the Qingdao Yiqing Enterprise Corporation to look after state-owned assets. Thus it took a major step in reforming the city's state-owned assets control system. Investigations suggested that governments at all levels gradually shifted the emphasis of their work toward "planning, coordination, supervision, and service" in a change from their former direct control to indirect control. They changed their former concern about enterprises' day-to-day activities to concern about improving the external conditions in which enterprises operate. This played a remarkably positive role in implementation of "the Regulations," spurring the transformation of enterprises' operating mechanisms.

(7) Diligent examination of applicable documents to clear away obstacles to implementation of "the Regulations"

Provincial and municipal governments at all levels in both provinces mobilized their personnel to look for various policies and regulations that conflicted with "the Regulations" and the province's "Enactment Methods." Shandong Province, for example, found 55,684 different documents that city (or prefecture) governments and agencies issued, 583 of which were scrapped, and 385 of which were revised. Incomplete statistics show that provincial and municipal (or prefecture) government examination of documents in Zhejiang Province found that 535 documents should be scrapped or revised. Hangzhou decided to follow the principle that "whoever drew up or implemented a regulation was responsible for checking it, the municipal government checking 1,885 documents and 167 regulations that had been issued during the previous decade." They divided them into four categories: those that should be scrapped, those that should be revised, those that should be partly scrapped, and those that should continue in force. Government and agencies at all levels are now continuing this task.

(8) Effective organization of enactment tasks to implement "the Regulations"

Governments and agencies at all levels in the two provinces paid close attention to the exercise of the 14 rights granted enterprises to make their own decisions, making sure that "the Regulations" and the "Enactment Methods" of each province were put into effect as the situation in each province warranted. The method that the government of Shandong Province used was to "make

the two changes at the same time, paying attention to both." They moved ahead simultaneously with transforming operating mechanisms and changing government functions. Implementation was conducted hand in hand with the feeding back of information, the pace of the "two changes" accelerating markedly as a result. Zhejiang Province applied four specific standards for the transformation of enterprises' operating mechanisms. It clearly stipulated how to go about putting into practice the "four selves" [sizi 0934 5261], and it also set forth a work plan that included the key points to be highlighted, the difficulties to be given attention, the starting point to be used, the operation of pilot projects, full movement ahead, and striving for substantial results. In the operation of pilot projects, representative enterprises and representative county (or city) models were used, all enterprises being urged along by groups and by stages toward reform of their operating mechanisms, first in the pilot project sites and later over a wider area. Ningbo and Hangzhou used the grafting of Sino-foreign joint ventures as a means of founding limited liability corporations that enabled enterprises to exercise their decision making authority in a single stroke. The Zhejiang Provincial government also stipulated that government agencies concerned must inspect once each quarter how well the 14 rights of enterprises to make their own decisions are being exercised. A complete inspection and an analytical appraisal must be made at the end of each year. The Qingdao municipal government set specific standards and clear-cut goals for putting "the Regulations" in place to transform operating mechanisms. These are to be implemented category by category, in stages, and in groups.

(9) Operation of pilot projects for different forms of operation, constantly widening avenues for the transformation of enterprises operating mechanisms.

1. Increasing the intensity of pilot project enterprise reforms. The two provinces used full promotion of the transformation of enterprises operating mechanisms as a basis for operating a number of pilot projects. They adopted methods for enterprises to finance their own reforms, for making their own reform decisions, for doing overall planning, for coordination, for proceeding in an orderly way, and for gradual intensification, thereby pioneering of a new road in the transformation of enterprises' operating mechanisms. Shandong Province, its cities, and counties, concentrated on reforming 1,300 enterprises, selecting 30 enterprises from among 132 pilot project enterprises as contact points for implementation of "the Regulations," giving them guidance in how to move ahead. Timely summarization and spread of 22 representative experiences gave impetus to further progress in the transformation of enterprises operating mechanisms everywhere in the province. The province has more than 500 share system pilot projects of various kinds at the county level or above. Zhejiang Province selected 30 state-owned enterprises for the running of pilot projects on diverse assets operating methods including the share system, the separation of taxes and

profits, and transformation through grafting [jiajie -1268 2234] to form joint ventures, and the founding of enterprise blocs. The province selected 15 collective enterprises to run pilot projects in accordance with "Regulations for City and Town Collectively Owned Industrial Enterprises." The province selected seven counties (or cities) for coordinated reform pilot projects. Currently, pilot project work is just getting underway. Some pilot project counties (or cities) have preliminarily formed rather good approaches for coordinated reforms. The province promptly summarized and publicized the experiences of enterprises that are out in front in the running of pilot projects such as the Wahaha Group Company and the Shenda Plastics, Machine Building and Electronics Group Company. Not only did the province pay close attention to the pilot projects, but each jurisdiction decided on a number of pilot project contact points to permit enterprises having the necessary conditions to begin to operate as quickly as possible the new mechanism that "the Regulations" specify. As enterprise reform becomes more pervasive, the ways of operating enterprise assets become more varied. A recent Zhejiang Province survey of 1,418 state-owned industrial enterprises within budget shows eight main forms of assets operation (some of which overlap): First is the implementation of a contract operating system in 1,011 enterprises, or 71 percent; second is the share system in 33 enterprises, or 2.3 percent; third is separation of tax and profits payments in 133 enterprises, or 9.2 percent; fourth is Sino-foreign joint ventures in 170 enterprises, or 12 percent; fifth is the copying of three kinds of partially or wholly foreign-owned enterprises by 19 enterprises, or 1.3 percent; sixth is enterprise groups in 70 enterprises, or 5 percent; seventh is the leasing system in 14 enterprises, or 1 percent; and eight is other forms in 65 enterprises, or 5 percent.

2. New advances were made in reforming the three systems within enterprises. Currently, enterprises in the two provinces are conducting varying degrees of reform of the three systems, scoring remarkable results from this reform. In Zhejiang Province, pilot projects for reform of the three systems are underway in more than 800 industrial enterprises employing 380,000 staff members and workers. Most of these enterprises are covered by the budget. In Shandong Province, nearly 900,000 staff members and workers in 2,442 enterprises are practicing the all personnel labor contract system. In 784 enterprises, 1.65 million staff members and workers are practicing contract-style management. Eleven counties, cities, and prefectures are running fully coordinated experiments for reform of the regional manpower system, and 380,000 staff members and workers in 198 enterprises are conducting pilot projects on the payment of wages according to job skills, an overwhelming majority of enterprises changing their internal wage distribution system using the "one separation two link" [yituo lianggua 0001 5192 0357 2171] method. Old age insurance and unemployment insurance coverage has expanded gradually for a further rise in the degree of socialization. The pace of various kinds of individual

reforms in enterprises has also quickened, many enterprises practicing a system of administration whereby different levels exercise different authority. The formation of small accounting units, and the decontrolled, diversified style of operation have increased enterprise vitality remarkably, their returns rising markedly.

3. The use of foreign capital for the transformation of old enterprise through has opened new avenues. The Ningbo Municipal government put into practice a new work approach of "two reforms and one graft" for old enterprises, namely the intensification of enterprise reform, attention to technological transformation, and the grafting of foreign capital. A main feature of this approach is the grafting of foreign capital to transform old enterprises. This has brought about a further transformation of enterprise operating mechanisms. Grafting is to be largely completed within three years, this grafting solving shortcomings with the existing domestically capitalized enterprise management system. Today, approximately 37 percent of all of Ningbo's industrial enterprises are joint ventures. Weifang City in Shandong used complete grafting, individual item grafting, the grafting of many branches, single-plant two-systems, and plant building leasing for the transformation of more than 150 enterprises under county jurisdiction, 16 of them setting up plants abroad. The use of foreign capital "grafting" has effectively spurred technological progress in old enterprises and accelerated progress in the transformation of their mechanisms.

In short, promulgation of "the Regulations" has played a major role in the promotion of reform and opening to the outside world, in accelerating the pace of the "two transformations," [liangzhuan 0357 6567] in increasing enterprise vitality, and in spurring economic development. The manager of a cement plant in Shandong said: "Promulgation and implementation of 'the Regulations' makes a plant manager's job easier than formerly. The regulations give plant managers support, boost their morale, and give them courage. As the external environment for enterprises improves, how well an enterprise performs will depend mostly on the enterprise itself." Many enterprises have courageously applied the rights that "the Regulations" confer as the situation in their own enterprise warrants, gradually building an operating mechanism that meets the needs of the market economy. Economic returns of the enterprise have risen greatly as a result. In Shandong Province, gross industrial output value, sales output value, and profits and taxes realized in 1992 were respectively 33.5, 24.1, and 26.5 percent higher than in 1991. During the first quarter of 1993, they again increased substantially on top of the fairly high base figure for the previous year. Output value and sales income for industries covered by the budget throughout the province increased 13.3 and 26 percent respectively. Profits and taxes, and profits alone increased 40.5 and 90.5 percent respectively. During the first quarter of 1993, the industrial added value, sales revenues, and profits of 878 large and medium size enterprises in Zhejiang Province increased 38.5, 38.1,

and 64.5 percent. The number of money-losing enterprises, and the amount of their losses fell 9.5 and 1.7 percent respectively.

(10) Plans for the Next Step in the Implementation of "the Regulations"

The year 1993 was a key one in the implementation of "the Regulations." Realization of the goal put forward at the National Economic Work Conference of virtually all enterprises exercising the 14 rights to make their own operating decisions that "the Regulations" prescribe, thereby enabling some enterprises to begin to operate with the mechanism that "the Regulations" provide is an extremely daunting task. Building on the implementation of "the Regulations" during the previous stage, Shandong and Zhejiang provinces has laid plans for the next step. Mostly, they will concentrate energies on making sure that enterprises' rights to make their own operating decisions are exercised, concentrating particularly on thorough investigations of instances in which the right to make independent decisions is not being exercised well, figuring out where the problems lie, and remedying them one by one. They will continue to run pilot projects for enterprise reform. While moving ahead with enterprise reform, they will pay close attention to pilot projects for provincial, municipal, and county reform, and for the separation of taxes and profits. They will also continue to run pilot projects on the stock share system. They will increase supervision and inspection of how well "the Regulations" and the "Enactment Methods" are enforced, paying particular attention to how well agencies in charge at each level are simplifying administration, delegating authority, and transforming their functions. They will also expose and dissect classic examples that show bad tendencies to guide the healthy development of work pertaining to "the Regulations."

Main Problems Today in Implementation of "the Regulations"

The overall situation in the two provinces suggests that a fine beginning has been made in implementing "the Regulations." The pace of the "liangzhuan" by both enterprises and government has quickened, and all reforms are gradually intensifying. Nevertheless, a considerable distance remains to be covered for full implementation of "the Regulations." Progress is uneven between one area and another, one sector and another, and particularly between one enterprise and another. Some knotty problems have just begun to be solved, and some deep down problems with the system are gradually being brought to light. The problems that impair and impede full implementation of "the Regulations" are of many kinds. They are mostly the following:

1. Leaders in some locales and enterprises still lack a full understanding of the importance of putting "the Regulations" into effect. They have yet to regard them as the most important of many important matters. It appears that leaders in some jurisdictions and departments devote most of their energies to organizational

structure, to building open zones, and holding down output value. They do not put much energy into implementing "the Regulations." Thus, there is not enough enthusiasm about this task which merits enthusiasm, and the correlation between reform and development is not handled well. It appears that some enterprises do not understand very well the essence of "the Regulations." They are not very well informed about the main content of "the Regulations." Instead, they suppose that the provisions of "the Regulations" do not solve their problems. They even lack confidence in full implementation of "the Regulations." They do not adopt, and they do not use the decision making rights that have been spelled out. They lack initiative about transforming their enterprise mechanism.

2. Government slowness in changing its functions is an important reason limiting implementation of "the Regulations." Government's change of its functions is reminiscent of a steam locomotive entering a train station: lots of huffing and puffing, but not very much movement. Government does not meet people's expectations. In numerous government departments, separation of government administration and enterprise management has not been completed. The management methods and the control methods of the planned economy continue to be followed; consequently, some reform measures for the transformation of enterprises' operating mechanisms have not been put in place. Some rights that properly belong to enterprises are still passed along from one agency to another, a higher level agency delegating them to a lower level agency, and the lower level agency exercising them even more rigorously than formerly. Some agencies have delegated authority without simplifying administration. Their operating procedures remain the same as before. Some talk a lot about the delegation of authority, but delegate little; they appear to delegate authority while secretly retaining it; or they delegate authority over small matters while retaining authority over large ones. Enterprises say, "We hear the sound of footsteps on the stairs, but 'authority' never comes down." Some agencies have taken the opportunity that forming entities or blocs provides to take back enterprises, retract authority, to engage in preclusive buying or selling, thereby infringing enterprises' rights and interests. Enterprises are extremely upset about this.

3. The equity rights of the state and enterprises have not been straightened out; thus, it is impossible to solve effectively enterprises in making their own operating decisions and being responsible for their own profits and losses. At the present time, the equity rights of state-owned enterprises are unclear; enterprises are responsible for their own profits but not for their own losses; and nothing has been done about beginning to build a stimulus mechanism and a restraint mechanisms for participation in market competition. Abuses of decision making authority and the loss of state-owned assets are difficult to avoid. Even though "the Regulations" specify that "the State Council represents the state in the exercise of enterprise property ownership rights," this is

difficult to do in practice. Various government bureaus exercise authority over enterprises at the same time, delegating examination and approval authority on the one hand, while contesting administrative authority over state-owned assets on the other. However, no one takes responsibility for the property, and this not only damages enterprises' transformation of their operating mechanisms, but also hurts returns from the operation of state-owned assets.

4. The building of markets and a social security system lag. Today, the building and development of materials, manpower, technology, and information markets does not keep pace with enterprises' needs in moving toward the market. Some functions are incomplete; in some cases markets exist for goods, but places to buy and sell them do not exist; in other cases, the places exist, but there is no market for the merchandise sold there. A case in point is the incomplete functioning of manpower markets in which talented persons lack mobility. There is a market for information, but places for the exchange of information are lacking. For finance, there is neither a market nor a place for exchange. Reform of the social security system, particularly the unemployment insurance, old age insurance, and medical insurance systems, are way behind the times. This hurts progress in intensifying enterprise reform.

5. Lack of coordination in reform impairs the transformation of enterprises' mechanisms and their movement toward the market. Because of the lack of synchronization of financial system reform, foreign trade system reform, fiscal system reform, manpower system reform, and enterprise reform, and the poor dovetailing of reforms, one government agency delegates a certain authority while another agency does not. Alternatively, the top level delegates authority but the bottom level does not, or the bottom level delegates it, but the top level does not. This greatly impairs enterprises' ability to exercise their right to make decisions.

6. Lack of supervisory means or coercive measures to ensure implementation of "the Regulations." "The Regulations" contain clauses for investigating and affixing legal responsibility, the persons to carry out the investigations and affix legal responsibility being a "higher level organ" or an "organ at the same level." If they do not exercise their punishment authority, who will? "The Regulations" contain no provisions. The problem of nonenforcement of the law in China is a serious one. This is also the case regarding implementation of "the Regulations." That some enterprises wrote replies such as "do not dare oppose," or "cannot afford to offend" on the questionnaires fused to survey how well enterprises were exercising their decision making rights attests to this problem.

The above problems aside, state-owned enterprises bear excessive burdens. Competitive conditions for entering the market are not equal. Enterprises are short of funds and their channels for obtaining financing are few.

Applicable laws and regulations are not sound or complete. The poor caliber of leadership in some enterprises is also fairly conspicuous. To varying degrees, these problems impair and restrict implementation of "the Regulations" as well as transformation of enterprises operating mechanisms.

Several Suggestions About the Next Step in Implementing "the Regulations"

The following suggestions are offered about the next step on the basis of the status and problems reported in the implementation of "the Regulations" in Shandong and Zhejiang provinces:

1. The state should perfect the state-owned assets control system with all possible speed, accelerating reforms that straighten out its equity relationship with enterprises. Many places in Zhejiang Province say that straightening out this equity relationship problem is crucial to the transformation of enterprises operating mechanisms. Fairly great strides have been made in moving ahead with the share system. Some jurisdictions have already begun to set up state-owned assets control organs and operating mechanisms; however, the state-owned assets management system is not fully developed. The definition of equity rights and the appraisal of assets have not kept pace. Many problems exist that await solution. Only by intensifying state-owned assets management system reform, further straightening out equity rights between the state and enterprises, can enterprises make their own operating decisions and be responsible for their own profits and losses, and the value of state-owned assets be protected and increased.

2. Genuine transformation of government's functions so that they serve enterprises. During the present reform of government agencies, all ministries and commissions of the State Concil should decide on a three part plan of earnest appraisal of government functions, spelling out the functions and responsibilities of each department, and further defining government actions. Acting in accordance with the principal of separation of government administration and enterprise management, they should divide existing functions into three categories: those that should be strengthened, those that should be reworked, and those that should be eliminated. All functions that are not in keeping with provisions of "the Regulations" should be either eliminated or reworked. All that are rights belonging to enterprises should be resolutely delegated as part of the intensification of change in government's functions. It is also recommended that national economic departments draw up policies that dovetail with provisions of "the Regulations" so that the provisions of "the Regulations" find greater application to actual work.

3. Earliest possible fairness in taxation to lighten enterprises' burdens, taking a course of creating an environment that encourages growth. The state should unify the enterprise income tax as soon as possible, changing tax concessions to preferential policies for industries in

order to create conditions of fair competition for state-owned enterprises like those that other enterprises enjoy. Practice has shown that simultaneous with emphasizing government delegation of authority and enterprise reform, following a course of creating an environment that encourages growth is an effective way of operating state-owned enterprises well. For example, while transforming enterprises operating mechanisms, Xinchang County in Zhejiang Province created an environment that encouraged growth. In consequence, the speed of development and the economic returns of some industrial enterprises greatly exceeded those of collective and civilian-operated enterprises. During 1992, 18 state-owned industrial enterprises accounted for more than 40 percent of the province's industrial gross output value. The all personnel labor productivity rate was 52 percent higher than in collective enterprises, and 4.6 times that of privately run and individual enterprises. For six years in a row, profits increased 61 percent, completely wiping out all losses.

4. Decisive actions to get rid of the historical burdens of state-owned enterprises. Today, approximately one-third of all state-owned enterprises are still losing money. Once the "two criteria" of the enterprise financial conference take effect, the losses will increase. Most state-owned enterprises carry heavy historical burdens that make their invigoration difficult. It is suggested that the State Council direct departments concerned including the treasury and banks to use implementation of the enterprise financial conference's "two criteria" as an opportunity for taking effective measures to appraise the fixed assets and circulating funds of enterprises. They should pay close attentions to solving the problem of state-owned enterprises' long accumulated charging off to various accounts to enable them to put down their burdens and head for the market with a light pack.

5. Better supervision of law enforcement in implementing "the Regulations." It is suggested that state supervisory departments strictly enforce the legal responsibilities that "the Regulations" provide, doing more to inspect how well "the Regulations" are implemented. Government agencies, personnel in charge, and those directly responsible for violating provisions of "the Regulations" to infringe the rights and interests of enterprises should be given appropriate administrative punishment or held criminally liable, making sure that the law is followed, that the law is strictly enforced, and that violations of the law shall be investigated as a means of ensuring full implementation of "the Regulations."

FINANCE, BANKING

GATT Impact on Public Finance, Tax Policies

93CE08864 Beijing ZHONGGUO SHUIWU BAO
in Chinese 6 Sep 93 p 3

[Article by Deng Ziji (6772 1311 1015): "Short-Term Impact of GATT Entry on Public Finance and Tax Policies"]

[Text] The resumption of China's membership in the General Agreement on Tariffs and Trade [GATT] is conditional upon its commitment to cut tariffs and as such is bound to have some direct effects on government revenue and hence government spending and its ability to balance the budget in the short haul.

The impact of China's accession to GATT on government revenue is felt mostly at the import tariffs' end. Since 1986, when China undertook to cut tariffs as a way of satisfying the condition for admission to GATT, this is what has actually happened. In 1985, before China undertook to cut tariffs, the nation derived 20.5 billion yuan in revenue from tariffs, 10.99 percent of total government revenue. After China began cutting tariffs, revenue from that source started to decline both absolutely and relatively. In 1992, tariffs generated just 18.7 billion yuan in revenue, 5.22 percent of total government revenue. As China continues to institute tariff cuts and concessions in the future, tariff revenue is bound to fall further. Normally as the national economy expands overall and foreign trade develops, tariff revenue should go up correspondingly. But the fact is that lately, during some years, tariff revenue has been falling to varying extents in China. Tariffs today are still an important source of government revenue and serve fiscal purposes in part. So their decline no doubt will have a major impact on government revenue overall.

In addition to tariffs, China's accession to GATT also will affect the flow of revenue derived from other taxes as a result of the decline of some industries and the bankruptcy of certain enterprises. By cutting the amount of income taxes the government stands to collect from enterprises in affected sectors, in particular, China's readmission to GATT will hold down the growth of total government revenue. After China rejoins GATT, moreover, it will be necessary for the Ministry of Finance to increase spending on technological transformation as appropriate to quicken its pace in enterprises. Furthermore, imports will expand rapidly after China becomes a GATT member, which means more foreign exchange will be needed, which, in turn, leaves the government with no choice but to work mighty hard to increase exports to earn more foreign exchange and, if necessary, issue more subsidies, in order to balance foreign exchange payments. An imbalance in the foreign exchange account will make it harder for the government to balance its budget.

Once readmitted into GATT, China will have to tackle the onerous task of upgrading the national economy as a whole without delay so as to successfully integrate the Chinese economy into the world economy even as it works to improve the regulation of imports and exports. This makes it even more imperative that fiscal macro-economic regulation and control be intensified and improved.

After China rejoins GATT, it would rely mainly on the two regulatory and control tools of tax rates and exchange rates to regulate its exports and imports. Hence

it is imperative that tariffs and domestic taxes on imports and exports be made more effective. Also, after China becomes a GATT member, the foreign exchange balance of payments will have an even greater impact on achieving a balance between aggregate social supply and aggregate social demand, so we must take the foreign exchange balance payments even more seriously. This raises the issue: How to properly use the public finance policy to ensure a balance in the foreign exchange account. When it comes to imports and exports, no doubt, China must continue to enforce the policy of "encouraging exports and limiting imports," yet there are now new demands at both the export encouragement end and the import restriction end.

—To help state enterprises enter the market and overhaul their operating mechanism, the Ministry of Finance should create a favorable external environment. This entails, among other things, facilitating the formation of a unified national market, creating a favorable external environment conducive to competition on a level playing field by imposing a fair tax burden and solving the problem of "enterprises having to pay for social welfare," and forming a more stable macroeconomic environment by achieving a basic balance between aggregate social supply and aggregate social demand.

Based on an analysis of the direct and indirect fiscal impact of accession to GATT on China, the nation should take the following measures on the public finance front as a matter of urgency:

—Tap substitute sources of revenue in light of the changes in the mix of revenue sources in a socialist market economy. Furthermore, adjust its pattern of spending in response to the requirements of developing a socialist market economy in order to balance the budget and create a mechanism for achieving such a balance.

—Choosing alternative revenue sources. Specifically, one option is to bring some of the new industries within the reach of the business tax. Raise the business tax rates for certain highly profitable industries as appropriate, thus increasing the revenue it generates. After the prices of mineral products are straightened out, a second option is to extend the resource tax to metallic and nonmetallic mineral products as well, which are currently exempt from it. If the conditions are ripe, the resource tax should be made applicable to other resources like forests and fresh water. Furthermore, we should raise the land use tax rate as appropriate to make the resource tax a more effective regulator of differential income. A third option is to levy a capital gains tax and inheritance and gifts tax when conditions for such taxes exist. The fourth option is to issue more bonds, putting the soft budget deficit to best use, as our ability to carry debt increases and when conditions permit.

—In a socialist market economy, the principal responsibilities and functions of the government are limited to public affairs that enterprises and society cannot handle, to the infrastructure, and to key projects. Fiscally, China gradually will shift to a production- and construction-oriented kind of public finance, whose principal difference from public finance in the West is that its production and construction-oriented revenue and expenditures are on a larger scale. As prices are sorted out in China, we should abolish a majority of the unnecessary price subsidies. Under a socialist market economy, most subsidies for money-losing enterprises should also be eliminated to make the most of the market competitive mechanism. Correspondingly, though, the Ministry of Finance should increase subsidies for the production sector, including subsidies intended to stimulate agricultural development, investment subsidies called for in the national industrial policy, and export subsidies offered to foreign-exchange-earning enterprises, within permissible limits, in order to enhance their competitiveness on the international marketplace.

—Accelerate comprehensive fiscal reform to facilitate a smooth transformation of the enterprise operating mechanism.

First of all, speed up tax separation reform and promote the formation of a unified national market. Toward that end, we must begin by paying full attention to the establishment of a local tax system and steadily expand the magnitude of the revenue generated by local taxes to set the stage for the full implementation of the separate tax system soon. Moreover, we need to standardize the way the various sites experimenting with tax separation carry out their pilot projects at present. Second, unify the enterprise income tax system as soon as possible to create a level playing field for enterprises as far as taxation is concerned. Needless to say, this piece of reform should be based on the separation of profits from taxes and the ordering of property rights relations. Third, establish and perfect a social security system to put an end to the problem of enterprises having to pay for social welfare undertakings and in order to set the stage for the implementation of the enterprise bankruptcy law. It is common international practice to fund a social security system by collecting a social security tax. We should work hard to create the conditions so that we can levy an appropriate social security tax soon in light of the conditions in China.

Formulate the right public finance policy to encourage enterprises to accelerate technological transformation and optimize the industrial structure. Specifically, besides boosting investment in the infrastructure and basic industries and spending the necessary funds on enterprise technological transformation, the treasury must make the most of public finance as a regulatory and control tool, vigorously using it to steer the economy. For one thing, when it comes to funding and profit distribution and on a policy level, the treasury should give strong backing to enterprises that are in line with

macroeconomic regulation and control and with the national industrial policy. Secondly, replace the existing enterprise income tax preference with tax preference for industries that are different. Further optimize the industrial structure. China should offer new-tech and high-tech industries as well as those who invest in the infrastructure and basic industries more generous preferential tax treatments. Enterprises that export their products and utilize foreign capital should be similarly favored. Meanwhile, preferential tax treatments for others should be minimized.

In accordance with international practice, we must improve and strengthen the fiscal policy as a means of regulating exports and imports.

First, we must further reform the tariff system. On the one hand, we must continue to cut tariffs. On the other hand, we must adjust the schedule of tariff rates to better reflect the government policy of encouraging exports and limiting imports. Second, reform the domestic taxes payable on exports and imports. This will involve deepening the reform of three taxes—product tax, value-added-tax [VAT], and business tax—to form a tax system dominated by a standardized VAT. This will make it easier to carry out the export drawback program and collect taxes on imports in full. In addition, export drawback rules should be perfected so that the money drawn back actually finds its way back into the parties involved in the production and circulation stages of the export product concerned, thereby spurring its production and export. Third, take effective protective measures in accordance with provisions in GATT to increase exports and enforce the necessary import restrictions. Among such measures are offering investment dimian and, if necessary, direct export subsidies, to export enterprises and levying an anti-dumping tax and anti-subsidy tax.

Finally, as an essential part of the effort to strengthen public finance as a regulator of imports and exports, China must change its mentality about taxation payable by foreigners and put together a new foreign taxation system.

It is generally understood in China that foreign taxation refers to taxes levied on foreign-funded enterprises, foreign enterprises, and people of a foreign nationality, in other words, taxes levied on foreigners (both natural and legal). In reality, however, there exists objectively in China the issue of taxing the incomes of Chinese nationals derived overseas. Under international practice, a nation should tax foreign economic activities at two ends, that is, it should tax both its own nationals engaged in economic activities overseas and people of a foreign nationality doing business in the nation in question. China should extend the reach of its foreign taxation system to include Chinese nationals engaged in economic activities overseas. To do so would help improve tax rules pertaining to the overseas economic activities of Chinese nationals and, in accordance with the legislative intent behind the existing foreign taxation

system, encourage them to launch international economic activities. In accordance with the requirements of "encouraging Chinese to go abroad to engage in business as well as foreigners to do business here," China should apply to Chinese nationals engaged in economic activities overseas more or less the same set of income tax rules that it is currently applying to foreigners in China. For instance, the two groups should be treated similarly when it comes to the standards for determining residency status, the application of tax dimian, and preferential tax treatment.

Impact of RMB Outflow on Macroeconomy

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21 Sep 93 p 3

[Article by Jing Xuecheng and Wang Jianhua, affiliated with the Finance Institute under the People's Bank of China: "The Impact of Renminbi [RMB] Outflow on China's Macroeconomy—Part Three of a Survey on the Circulation of RMB and Hong Kong Dollars in the Hong Kong and Macao Border Areas"]

[Text] 1. The large-scale circulation of renminbi [RMB] outside China shows that RMB can serve as a means of payment in circulation and as a means of value-preserving savings on markets in East Europe, Hong Kong, Macao, Taiwan, and Southeast Asia. All this facilitates economic exchanges in border trade and settlements in small-volume trade, replacing black market trading and strengthening economic and financial ties between the hinterland and Hong Kong and Macao, thereby creating economic-exchange foundations for the smooth transfer and transition in 1997 and 1999.

2. The allowing of some RMB outflow and the Hong Kong banks' provision of exchange service are transferring some hinterland purchasing power onto the international market, alleviating inflationary pressure, and enhancing the Hong Kong people's confidence in the RMB. According to rough calculations, there is approximately 8-10 billion yuan RMB in the neighboring countries and areas; this is the same as an equivalent reduction in cash supply in China, and will reduce cash supply's disruptive impact on market prices.

3. The RMB's development and acquiring convertibility on foreign markets have provided new parameters for the domestic foreign exchange market, representing the first step of the RMB's movement toward becoming a convertible currency, and have raised the RMB's international status and alleviated foreign exchange shortages. The exchange rate levels in Hong Kong, the largest individual foreign-exchange swap center for RMB, provide overseas parameters with regard to the management of official exchange rates. The relevant decision-making agencies will formulate operational policies on the basis of observing and analyzing overseas RMB markets, so as to make the RMB's transition to a convertible currency even smoother.

4. The outflow of RMB in cash and the RMB's acquiring convertibility abroad have produced new challenges to, and pressures on, China's domestic financial policy, foreign exchange control, etc. First, when the RMB exchange rate is better on the markets abroad than at home, those coming to China will exchange their currencies for RMB abroad, thereby reducing to some extent China's nontrade foreign exchange revenues. Revenues from overseas-Chinese remittances will also decline as the practice of substituting cash for remittance grows; as a result, some individual foreign-exchange swap transactions will inevitably move abroad, and the impact on the border areas will be even more prominent. Second, some hinterland companies and enterprises would, after receiving foreign exchange in Hong Kong, conduct foreign exchange swap transactions through Hong Kong firms; consequently, the phenomenon of paying with foreign exchange abroad and getting RMB at home is increasing, resulting in the loss on the part of the state of several hundreds of millions of U.S. dollars' worth of foreign exchange for this reason each year. In addition, the situation discussed above also facilitates foreign-originated forged RMB's getting to be circulated on the domestic market through exchange operations.

As far as the current situation is concerned, RMB mainly flows to and from Hong Kong and Macao, and the outflow is larger than the inflow. From a short-term perspective, the RMB that has outflowed would return home, and the outflow approximately equals the inflow; from a medium- and long-term perspective, as the RMB that has outflowed is purchased by exchange businesses in Hong Kong and Macao, it can have a disruptive impact on the domestic market when the amount involved is substantial.

Finally, an increase in RMB inflow will also generate new issues, such as the issue of whether overseas agencies of Chinese-owned banks and foreign-owned banks should be allowed to conduct RMB business. It is necessary to make timely policy adjustment in this regard.

5. The impact of RMB devaluations on the outflow of RMB and Hong Kong dollars and on foreign-financed enterprises. As long as there is a difference between the exchange rate for the RMB against the Hong Kong dollar (or another foreign currency) in the hinterland and the exchange rate for the RMB against the Hong Kong dollar (or another foreign currency) in Hong Kong and Macao, RMB outflows and inflows will have various different impact on different foreign-financed enterprises. When the exchange rate in Hong Kong and Macao is lower than in the hinterland, the outflow of RMB would be larger; when the exchange rate in Hong Kong and Macao is higher than in the hinterland, the inflow of RMB would be larger. The purpose is to use the difference in exchange rates for making profits through conducting arbitrage.

Several Suggestions on Intensifying the Foreign Exchange Reform, Promoting Free RMB Outflows and Inflows, and Developing RMB Markets Abroad

The main goal of China's current monetary policy should be to inhibit inflation and stabilize the value of the RMB. It is necessary to strictly control money supply, retrieve credit funds, further raise interest rates, crack down on speculative lending, cut government spending, alleviate inflationary pressure, and seek sustained economic growth, while keeping the value of the RMB stable, so as to enhance people's confidence in the RMB, thereby turning it into a generally internationally accepted and recognized currency as soon as possible. On the basis of having these premises:

1. It is necessary to further study the appropriateness and feasibility of exercising control over the exit and entry of RMB. Usually, in controlling currency outflows and inflows, a country would either completely prohibit such outflows and inflows, or prohibit outflows but not inflows, or prohibit inflows but not outflows. According to the regulations on the control over RMB's exit and entry issued this time, it is necessary to exercise control so as both to make sure that no more than 6,000 yuan is taken out of China and to make sure that no more than 6,000 yuan is taken into China. On this issue, customs workers feel that it is particularly difficult to make sure that no more than 6,000 yuan is taken into China, and to handle such cases. With regard to the cases in which people have carried more than allowed, keeping the money at the customs agencies would not be consistent with the policy of removing restrictions on RMB's exit and entry so as to make things convenient; but returning the money to Hong Kong and Macao would be even more absurd. In that case, the currency issued by China, a sovereign country, would not be accepted, and have to be returned to a area which does not issue RMB. It is hereby suggested that restrictions be made less stringent or that the restrictions on inflows be removed so as to concentrate on flows in one direction.

2. The competent agencies, especially the Foreign Exchange Control Administration, should further clarify the requirements concerning the control over RMB's exit and entry, coordinate with the customs and border inspection agencies as well as industry and commerce organizations in carrying out the control work, and establish a system of irregular exit-entry statistical monitoring of RMB, Hong Kong dollars, etc., so as to have tracking data.

3. In perfecting the control over RMB's exit and entry, it is perhaps advisable to start with the following efforts:

A) Clarify the foreign-exchange control agencies' duties regarding the control over the exit and entry of RMB, Hong Kong dollars, etc., and formulate specific rules on the control.

B) Do a good job of making the foreign-exchange control agencies cooperate with customs and border inspection agencies, industry and commerce organizations, the

Bank of China, and other organizations at ports of entry. Currently, the customs houses have a shortage of manpower and are focusing their examination on smuggling. They do not give emphasis to the outflow and inflow of RMB and Hong Kong dollars, but only carry out occasional random inspections. The customs houses are not conducting examinations so as to prohibit the taking of over 6,000 yuan in or out of China. It is necessary to stop the loophole.

4. Remove restrictions on overseas RMB business in a planned and gradual way, promote the development of offshore RMB business, and develop RMB markets abroad. On the basis of being active and prudent, it is necessary to take the following steps:

A) First, allow Chinese-owned banks in Hong Kong to handle RMB cash transfer business, and promote offshore RMB business.

B) Allow Chinese-owned institutions overseas and their branches to conduct RMB business, especially the RMB business conducted by the Bank of China institutions in Hong Kong and Macao. We should, in response to the needs of market development, take the initiative in exercising financial supervision over Chinese-owned financial institutions in Hong Kong and Macao, and at the same time turn such places as Hong Kong and Macao into currency markets where all currencies can be freely converted.

C) Allow foreign-owned banks in Shenzhen to conduct RMB standard money business. Developing RMB exchange-business contacts is conducive to stabilizing the RMB exchange rates and helpful to joint efforts to stabilize exchange rates. Induce the emergence of equilibrium exchange rates on the mainland through making use of RMB appreciation expectations on the part of Hong Kong people. Induce capital account inflows and increase foreign exchange reserves through the efforts discussed above.

D) Seize the opportunity to intensify the effort to introduce uniform exchange rates. It is necessary to guide foreign exchange trading on black markets, and speed up the effort to introduce uniform exchange rates. Make RMB exchange rates abroad the reference rates; let the market determine the exchange rates; and have the exchange rates regulated by the market. Have the central bank influence and regulate the exchange rates through using monetary policy tools. The current foreign-exchange swap rate of 8.5-9.5 yuan can be said to be a rather proper market rate; thus there is now a good opportunity to introduce uniform exchange rates on the basis of such a rate.

E) The central bank should, with the support of the State Council, seize the opportunity and be resolute in retrieving RMB through using the state's foreign exchange. This can both tighten money supply and stabilize prices of foreign exchange. Afterwards, buy back the foreign exchange on the open market, thereby

turning static foreign exchange reserves into dynamic foreign exchange reserves characterized by a benign cycle.

F) Make foreign exchange convertible to a limited extent at home, allow nonresidents of China to make use of RMB exchange business operations in places such as Shenzhen where Hong Kong dollars already circulate on the markets, and allow domestic banks in Shenzhen to conduct individual foreign-currency exchange business to a limited extent. Have the domestic banks determine the individual exchange prices of foreign currencies on the basis of market situations; the RMB market exchange rates thus formed will embody relationships of market supply and demand to a greater extent, and can serve as reference with regard to the adjustment of official RMB exchange rates.

G) Improve and strengthen the regulation of currency circulation in the special economic zones. Prohibit the circulation of other currencies at home. Prohibit the unauthorized use of prices denominated in the Hong Kong dollar or other currencies, and strengthen the RMB's status as the legal national currency.

Article on Tax-Profit Separation System, Market Economy

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[Article by China People's University Professor Chen Gong (7115 0364): "Tax-Profit Separation Will Take On a New Mission"]

[Text] While a dozen years of so of reform have brought substantive change to the distribution relations between the Chinese state and enterprises, with enterprise independence expanding steadily and enterprise vitality clearly enhanced, as far as establishing a socialist market economy is concerned, distribution relations are still not standardized enough, and distribution mechanisms have not yet been perfected, so that the way to intensify reform will be to practice tax-profit separation.

This so-called tax-profit separation can be summed up as clearly separating taxation (referring to state-enterprise income taxes) from aftertax profit distribution, making it impossible to confuse them. Tax-profit separation involves reform of our tax, profit-distribution, and investment systems, being a distribution system suited to a socialist market economy.

Reform practice shows that tax-profit separation is aimed at our state-enterprise contract system. As the contract system contracts not only aftertax profits, but also enterprise income taxes, it confuses these two different distribution categories, leaving distribution relations nonstandard and distribution mechanisms hard to put in order. Tax-profit separation covers two substantive items: 1) It resumes state-enterprise income taxes, better establishing a uniform enterprise income-tax system; 2) It standardizes enterprise income-tax pretax

expense-listing and aftertax profit-distribution, changing loan repayment from pretax to aftertax.

While the contract system is undeniably a possible option for operating and distribution form in our economic-reform process, with certain clear successes having certainly been achieved under the contract system, the contract system is after all a nonstandardized transitional form, impossible to turn into a goal model for putting the distribution relations between the state and state enterprises in order in line with a socialist market economy.

The contract system defines the distribution relations between the state and enterprises in contract form. If the pertinent government sectors and enterprises both conscientiously exercise their respective rights and obligations, while it is possible to achieve limited separation of the "two jurisdictions" within contract limits, the contract system is premised on acknowledging administrative-subordinate relations, so cannot essentially achieve the separation of either government administration from enterprise management or of the "two jurisdictions." Precisely the opposite in practice, some responsible departments can exploit their contract-issuance authority to forcibly interfere with enterprises, while some enterprises can demand dependency relations with their responsible departments through contract terms.

As the contract system requires contract periods, since open-ended contracts do not exist, it is impossible for the contract system to establish long-term and stable property-rights and distribution relations. Moreover, the more indefinite factors in the course of converting from the old to the new system leave most enterprises concerned about extension of contract periods, which is a reality that cannot be ignored.

The contract system contracts enterprise income taxes, with all enterprises subject to varying contract bases and payment proportions. On one hand, this puts an unequal burden on the various enterprises within the state-enterprise system, while the differing income-tax system for state and nonstate enterprises makes it impossible from a tax-burden perspective to create a climate of fair competition. On the other, the contract system fixes enterprise profits, necessarily limiting and even obstructing the intensification of overall economic-system reform.

These show that as to overall economic reform, the contract system has completed its historic mission.

The only criterion in the current evaluation of a system's pros and cons is whether it contributes to the establishment and perfection of a socialist market economy. Tax-profit separation is a distribution system suited to a socialist market economy, with its superiority having been proved through some years of tax-profit separation experimentation. The Ministry of Finance has published and put into effect on 1 July 1993 the "General Rules on Enterprise Financial Affairs" and the "Enterprise

Accounting Standards." The "General Rules on Enterprise Financial Affairs" provide that "enterprise profits, after a relevant state-set adjustment, are subject to income-tax payment according to law." This provision applies to all enterprises in China, with clear limits between taxes and profits, making it a general enterprise-distribution principle under a market economy.

Tax-profit separation contributes to the conversion of enterprise operating forces, to enhance state macroeconomic regulation and control. Tax-profit separation is in fact a prerequisite for the conversion of enterprise operating forces. It is only tax-profit separation that makes a uniform tax system possible, to create a climate of fair competition for all types of enterprises. As China's current enterprise income tax is one tax in many systems, with varying tax rates and irrational tax burdens, practicing a uniform corporate income tax system for all types of enterprises, to achieve tax payment according to law and fair competition, is an inherent requirement of a socialist market economy, and a uniform corporate income tax means first resuming state-enterprise income taxes.

Tax-profit separation is also closely tied to reform of the tax-separation system. The tax-separation system was an inevitable choice for the establishment of a revenue system suited to a socialist market economy. The key substance of the tax-separation system is the separation of government spending at all levels based on the administrative jurisdictions of the central and local governments and, based on the principle of uniform fiscal and administrative jurisdiction, a rational separation of central and local revenues. And resumption of state-enterprise income taxes, to achieve a uniform tax system, is a prerequisite for the tax-separation system.

Tax-profit separation also contributes to the establishment of an investment system within enterprises of good circulation. Another key item in tax-profit separation is the change of loan repayment from pretax to aftertax, i.e., enterprises using their own funds to repay loans, and no longer deducting them from taxable income. While pretax loan repayment was practiced under particular historic conditions, once playing a good role in making up enterprise upgrading-fund shortages and enhancing enterprise vitality, the pretax loan-repayment system lacks clear relations of responsibilities, rights, and interests among banks, enterprises, and state revenue, with bank lending, enterprise fund use, and revenue repayment actually remaining an investment system in which "all eat out of one big pot." So in the change to enterprise loan repayment with their own funds, enterprises will first have to consider using their own funds for investment, and then apply for loans to make up shortfalls, bringing emphasis on investment efficiency, and banks will pay more attention to loan-feasibility studies.

The successful practice of tax-profit separation will depend on the right measures and related reforms.

The uniform enterprise income tax rate must be right so, based on China's realities and international tax rates, should be legally set at 33 percent. In order to give consideration to the difficulties of small- and medium-sized enterprises, we could set two additional lower tax rates as a transition method.

As the past collection of the "two funds" (the energy and communications priority-construction fund and the budget-reconciliation fund) was a temporary measure to alleviate revenue difficulties, being a nonstandardized revenue means, it should be abolished with the implementation of tax-profit separation.

In combination with the implementation of the "two abovementioned laws put into effect by the Ministry of Finance," qualified enterprises could set aside additional depreciation funds, by practicing rapid depreciation, in order to enhance their loan-repayment and self-investment capabilities.

As to past unpaid pretax loan repayments that have accumulated for years, we should deal with them differently based on varying conditions, by resolutely clearing them up at once, without which they might become an encumbrance to tax-profit separation.

Tax-profit separation also needs to be combined with rigorous financial discipline, rectification of tax order, and halting of social apportionments. And it also needs to be dovetailed with reform in the areas of budgeting, taxation, investment, banking, and pricing.

Article Calls for Perfection of Value-Added Taxes

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[Article by Xu Yiming (6079 0001 7686) and Chen Zhining (7115 1807 1337): "Perfection of Value-Added Taxes"]

[Text] As a development of the traditional flow taxes, value-added taxes are a fine tax category, which point has been proved by world-wide experience. Since value-added taxes were first put into effect by France only four decades ago in 1954, they have been approved and disseminated in over 60 countries and regions. For a new tax category to be so quickly disseminated and developed globally was unprecedented in world tax history. Even in the United States, where value-added taxes have been discussed for so long without a decision having been reached on them, feasibility studies on the imposition of value-added taxes have again been put on the agenda in recent years.

The key feature of value-added taxes is that they are suited to the needs of socialized large-scale production, reflecting a tax ideology of tax-burden fairness and tax-revenue neutrality. They eliminate the traditional flow-tax defect of duplicate taxation obstructing the development of social production toward a specialized

division of labor, while making it possible for the state to acquire steadily growing revenues.

China's introduction of value-added taxes was also based on the above-mentioned understanding. Moreover, through long study and observation, the pros of value-added taxes and the possibility and necessity of imposing them in China have won a widespread theoretical consensus and affirmation. The problem is that theory is after all not reality. In the particular operation of applying value-added taxes, we have run into certain problems, i.e., that their rules are complex, their calculation is tedious, their collection-management is very difficult, and they need to be matched with rigorous tax-management and financial-accounting systems. The considerable gap between China's current taxation and financial-accounting management level and this requirement, in addition to obstacles in the area of public mindset and customs, means that our value-added tax policy has encountered great implementation resistance, even to the point of certainly not having been genuinely carried out as required. Most current value-added tax collection and settlement is a confiscatory seizure of product taxes, in some cases even being according to the method of taxes being set through consultation between tax departments and enterprises. The significance of such value-added taxes is necessarily largely discounted, with some enterprises turning them into taxes in name only. Faced with such a reality, people have questioned the validity of imposing value-added taxes in China.

Is it actually necessary under China's current conditions to impose value-added taxes? And in what direction are they developing?

We hold that value-added taxes not only must be adhered to, but also should be moved as quickly as possible along a path of perfected standards, to make them the key flow tax.

How should we go about perfecting our current value-added taxes? We could consider acting in two steps, step one being a short-term adoption of tactical measures, and step two a careful deliberation over strategic ones.

In our initial reform period, in order to stabilize revenues and preserve our established interest structure and price levels, our value-added tax rates were set by the method of "reverse checking of accounts" of product tax burdens. As an interim measure, while such an experimental stage with a small collection scale was feasible, as it kept our tax-system reform from producing sharp conflicts of interest and reduced the test risks, along with sounding out certain special requirements of value-added taxes in China, as a "transition" it could only be an interim measure, meaning that its conflicts have grown increasingly sharper.

In light of this, we need to abandon our old method of reverse checking of accounts, by making our tax rates uniform and standardizing deductions. Our new tax-rate structure could follow the three-grade style most used internationally, i.e., a standard tax rate, a maximum tax

rate, and a minimum tax rate. The standard rate would apply to taxes on popular commodities or labor; the maximum rate would apply to taxes on luxuries, expensive consumer goods, and items for which the state restricts production or business, being in the category of listed taxation; and the minimum rate would apply to taxes on popular daily necessities and industries for which the state particularly needs to encourage production or business, also being in the category of selective listed taxation. Tax rates so designed would have advantages as to both immediate needs and long-range considerations. First, they would contribute to the implementation of state industrial policy. Value-added taxes are indirect ones so that, while taxpayers would be producers and operators, the tax burden could be shifted to the circulation link, with the extent of the shift varying along with demand flexibility. The tax burden for nonnecessities and labor with highly flexible demand would be hard to shift, so that high taxes could restrict production and business. But the possibility of shifting the tax burden for necessities with little demand flexibility would be great, with low tax rates ensuring normal consumption. Second, they would essentially dovetail with our current tax-rate distribution status, being highly serviceable. In our current 12 tax rates, the minimum is 8 percent and the maximum 45 percent, with their distribution being basically a moderate tax rate involving a broad tax base and large revenues, and the maximum and minimum rates involving narrow bases with low revenues. As the new tax rates in three grades would be close to this current tax-rate structure, their application would not have too great of an impact on our current enterprise income-structure and revenues.

While standardizing tax rates and making deductions uniform, we should expand our collection (tax) base. As noted above, the nature of value-added taxes per se means that only by synchronized imposition at the production, wholesale, and retail links can they achieve the more ideal effects, by reflecting their neutral role, preserving tax-burden fairness, and having the impact of pushing the economy toward socialized development.

On the other hand, a narrow tax base not only makes it hard to reflect superiorities, but also inevitably creates a situation of great numbers of tax categories and complicated collections. For instance, if a taxpayer produces products on which both value-added and product taxes should be paid, while operating both wholesale and retail businesses, such an enterprise pays both value added and product taxes, as well as business taxes, which undoubtedly is a problem for both the enterprise and the tax department. This is precisely why the absolute majority of countries that impose value-added taxes have extended them from the production to the sales link, as well as always paying attention to intensifying their impact. Since China began to experiment with value-added taxes, while we have steadily expanded their tax base, we have proceeded at too cautious a pace, leaving them still limited to certain industries and products of industrial production. Counting from 1979 when we

began to experiment with value-added taxes in certain zones on the machinery industry, China has now been imposing value-added taxes for 15 years. We should now take advantage of the opportunity of developing a market economy, deregulating prices, joining the GATT, and sharply reforming our financial accounting system, to fully implement value-added taxes in the field of industrial production, as well as steadily and firmly expanding them into the field of circulation, until they infiltrate all tertiary industries.

These steps are possible and necessary to take under current conditions. But in addition, we also need to conduct the following two reforms out of long-range considerations.

1. We need to set up an invoice-deduction system. The most bothersome thing about calculating value-added taxes is setting tax deductions. Based on the experience of the countries that successfully practice value-added taxes, the "invoice-deduction method" is more desirable. That is, invoices are regarded as the legal proof for deductions, with tax deductions based on their clearly indicated tax payments. This method has the following major advantages: A) It streamlines calculation formalities. Clearly indicating value-added tax amounts on invoices for transactions between enterprises as the legal proof for tax payments and deductions, involves less enterprise account handling, as well as ensuring that tax calculation is simple and clear. B) The unique tax deduction-offset mechanism provides checks between enterprises, stopping evasion, avoidance, or illegal reductions or exemptions, to ensure revenues. Tax departments rely on the tax amounts clearly indicated by enterprises on invoices to collect and deduct. If the seller overindicates the tax amount, he pays more taxes; but if he underpays or does not pay, the invoice must underindicate or not indicate taxes, so that the buyer can deduct less or not at all when purchasing. So to protect respective interests, the best option is to pay accurately and indicate tax payments clearly. The invoice-deduction method also helps to make taxation more transparent, by reducing collusion between tax collectors and enterprises, putting a stop to "gift taxes," and raising work efficiency.

2. We need to move our value-added taxes from a production to a consumption track. In theory, value-added taxes are generally calculated after production managers deduct from their sales or business turnover nonvalue-added items, such as outside-bought commodities and fixed assets transfer value. As to China's macroeconomic structure, our next step in value-added tax reform should be a change-of-track from production to consumption or income. As to development trends, consumption value-added taxes is the development direction, because fixed-capital investment increases along with S&T advances and the acceleration of fixed-assets upgrading. Consumption value-added taxes tax less capital-intensive enterprises that are highly organized and have a smaller value-added percentage, being

sued to this economic-development requirement, spurring the conversion of labor-intensive enterprises to capital-intensive ones, stimulating capital-flow to intensive enterprises, and contributing to product upgrading and replacement and the improvement of competitive capability.

SMALL-SCALE ENTERPRISES

Talk With Head of Henan Rural Enterprises

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[Article by Liu Haifa (0491 3189 3127): "Search for a New Economic Growth Area, an Interview With Henan Rural Enterprises Bureau Chief Li Keyong (2621 0344 2837)"]

[Excerpt] Up to the present, rural enterprises have been one of the most vigorous and fastest growing segments in the national economy. Yet many people today are worried or have underlying doubts about rural enterprises. Henan Rural Enterprises Bureau Chief Li Keyong, in his insightful but at the same time startling remarks, stated that rural enterprises today are facing serious challenges of a self-managing system, of relationship between production and ownership, of state-owned enterprises, and of foreign-funded enterprises. If rural enterprises cannot face up to reality and deal with such challenges, and quickly find a new economic growth area, then "new ventures" will encounter difficulties, and given the fierce market competition, it is possible that such new initiatives may even end up in "failure."

What is a new economic growth area for the rural enterprises?

This reporter interviewed Henan Rural Enterprises Bureau Chief Li Keyong for answers to the above question.

When we got on the subject of the rural enterprises, Mr. Li's words were filled with excitement and emotion. He said that Henan is a large agricultural province, and that the provincial party committee and government have sought to invigorate Henan's economic development by concentrating on developing the rural enterprises, seeking thereby to achieve a breakthrough for the peasants to get rich, and this effort has resulted in a steady growth of the rural enterprises in Henan during the last few years. Last year, the rural enterprises in the province for the first time broke the record of 100 billion yuan in total output value, which made Henan a leading province in terms of rapid development of rural enterprises among the central and western provinces of China. In the first half of this year, the rural enterprises have maintained this momentum, and their total gross receipts reached 77.606 billion yuan, and tax payments totalled 1.218 billion yuan; these figures were respectively 76.08 percent and 52.13 percent higher than those in the same period of last year.

But the development of the rural enterprises has also produced certain problems that cannot be overlooked today; if these problems were not addressed and gradually solved soon, they will affect the stable development of rural enterprises over the long term. Mr. Li was not without worries when he discussed these problems from several aspects. First, he said that the individual economy, having reached a certain stage of development, has now encountered problems it cannot solve by itself. For example, the disposition of the essential ingredients of production is not rational, such as having the capital without technology, having the technology without a factory site, or having a factory site without labor, etc. In the case of the jointly operated enterprises and cooperative economic entities, many of which formed on the basis of "gentlemen's agreements" or "verbal contracts," the problems are the lack of necessary legal protection and, when needed, the lack of a suitable organizational structure to deal with the problems. Second, abuses do exist in the management system of rural collective enterprises. One-third of these enterprises make good profits, another third only marginal profits, and a final third operating under debt; the basic reason is that these enterprises have been affected by the planned economy, resulting in some enterprises operating like they are "semi-state owned," and depriving them of the vitality they otherwise should have. In the reform of the state-owned enterprises, it appears that cadres would only be promoted but not downgraded, workers hired but not fired, and their salaries go higher but not lower; furthermore, these abuses are being "passed down" to the rural enterprises, and some of them are now operating over-staffed, ill-equipped facilities with underemployed personnel. In some rural enterprises, nonproduction workers and employees account for 50 percent of the total personnel. Compared to the earlier period when rural enterprises were vigorous, highly efficient and strongly competitive, today such qualities in rural enterprises have seriously deteriorated and some even gradually disappeared altogether. But even more serious is the fact that many rural enterprises have not clearly defined the relationship between production and ownership and they therefore lack the necessary drive and motivation to produce; if changes are not made in the structure and system of operation, it would be difficult for rural collective enterprises to develop in a healthy direction in the future. Third, the development of rural enterprises is seriously hampered by the lack of capital; it will be necessary to change from the previous sole reliance on banks for funds to adopting multifaceted approaches to raise capital. A cooperative shareholding system is a good way to deal with the above-described contradiction. This new mode of economic organization is one which the individual economy must face when it reaches a certain stage of development: it is an organizational mode which clarifies responsibilities, rights, and benefits, and a vigorous system which ceaselessly finds ways to develop and accumulate capital and demonstrates its vitality.

Mr. Li said that the rural enterprises can find a new economic growth area by turning to the cooperative shareholding system. In a market characterized by increasingly fierce competition, the rural enterprises find that they face increasing contradictions in terms of capital, technology and personnel talent, and that their weakness and inadequacy to cope with emergencies are becoming obvious; the development of the enterprises is therefore constrained by weaknesses in their operating system and the lack of vitality. For the rural enterprises to regain their former growth momentum, it will be necessary to find a new growth area and an economic organizational model suitable for developing the productive strength today, and for that, the cooperative shareholding system is a superior choice. In the past few years, counties in Henan such as Ruzhou, Mi and Zhenping have vigorously promoted the cooperative shareholding system, and they have been able not only to effectively solve the problem which has hampered rural enterprise development, but also to maintain development at a relatively fast pace. At the same time, the cooperative shareholding system has strengthened the hand of the rural enterprises in raising mixed capital for development through the use of various channels for this purpose. To promote a superior combination of essential ingredients for production, the cooperative shareholding system uses the merging of capital as foundation and the mutual sharing of benefits as linkage; it operates by breaking up any regional or urban-rural divisions, breaking out of the parameters imposed by existing rules and regulations of the departments, and from the previous single-dimension format of the rural enterprises in which capital is the sole responsibility of either the township or village, from that format changing to a new productive system whose strength is based on combining capital, facilities, technology, sites and other similar but widely scattered essential ingredients of production from different regions, department or systems, and concentrating all of these in one economic system to maximize the disposition of all the ingredients and to form a new productive force.

Mr. Li said of especial importance is the fact that the cooperative shareholding system can improve the operating system of rural enterprises. In the course of their development, the rural enterprises have evolved a relatively effective operating system, but after more than 10 years, weaknesses are beginning to appear in this system for various reasons. In particular, the rural enterprises now face serious challenges posed by appearance of the foreign-funded enterprises and the strong, asset-rich state-owned enterprises which are in the process of reforming their operating system. To revise or reshape the operating system is therefore a pressing and unavoidable task for the rural enterprises. The cooperative shareholding system has various advantages including multiple sources for capital, separation of managerial and production functions, differentiation of production and ownership responsibilities, and self management of a fully integrated system, and these can effectively remedy any problems of systemic weaknesses in the rural

enterprises. Furthermore, the cooperative shareholding system has the special characteristics of equal sharing of profits and risks, and of integrating rewards based on labor and dividend payments based on the number of shares owned; by dividing rewards based on labor, it means the staffs and workers are both laborers and stockholders, which greatly strengthens not only the initiatives of those in management but also the sense of responsibility of ownership, all of which enables the enterprise to operate with vigor and vitality.

Mr. Li said that in developing the cooperative shareholding system, the aim is not to limit its type or form. At present, enterprises in Henan generally fit into one of the following six models: First, an economically evolving model; second, a joint economic transitional model; third, a reorganized collective enterprise model; fourth, a model for changing to a jointly operated enterprise; fifth, a newly formed cooperative shareholding model; and sixth, an integrated, two-level operating model. Regardless of which model, it combines a shareholding system with the merging of capital, dividend payments based on the number of shares owned, and rational managerial functions as the core; it is a new Socialist collective economic organizational model which combines a collective shareholding system with a cooperative system, which is better than any single system and which therefore has superiority and vitality. And for this very reason, the cooperative shareholding enterprises in Henan have developed rapidly; at present, there are a total of 120,000 such enterprises, employing more than one million people, with an annual output value of 15 some billion yuan and tax payments of some 2 billion yuan; they are the "dark horse" among the rural enterprises. The provincial authorities have decided that henceforth, all new rural enterprises should in principle be based on the cooperative shareholding system, that among the rural enterprises in Henan, with all working toward a common goal, 60 to 70 percent of them should be changed to operating on the cooperative shareholding system by 1995, and that all Henan's rural enterprises should as quickly as possible take advantage of this new growth area in their development.

FOREIGN TRADE, INVESTMENT

Academic Analyzes International Service Trade

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[Article by Professor Xue Rongjiu (5641 2837 0036), Foreign Economic and Trade Relations University: "On International Service Trade"]

[30 Jul 93 pp 26-32]

[Text] After World War II, with the eruption of the third science and technology revolution, the emergence of many trans-national companies, and the globalization of

the world economy, finances, and information, international service trade made great strides and produced a tremendous effect on international commodity trade. For the first time, the development and liberalization of international service trade became an important issue at GATT's Uruguay round of negotiations. This article attempts to make a systematic, comprehensive, and concise analysis and discussion of the international service trade.

Concept, Substance, and Classifications of International Service Trade

I. Service industry, also known as tertiary industry, is an important component in the economies of all nations.

In economics, "service" refers to a unique form of product of labor. Marx pointed out that "generally speaking, the term service only refers to the unique use-value generated by this kind of labor, just like any other product that generates its own unique use-value. But in this case the unique use-value of labor is given a special name, 'service,' because such labor does not produce a good but is an activity that provides a service."¹ Thus international service trade refers to the unique use-value provided by one nation for another in the form of labor service.

The "General Agreement on Trade in Services" [GATS] drafted at the Uruguay round has determined that international service trade should include the following:

"(1) The provision of services by one signatory state for another signatory state within the latter's boundaries;

(2) the provision of services by a signatory state within its own boundaries for the consumers of another signatory state;

(3) the provision of services by a natural person of a signatory state within the boundaries of another signatory state;

(4) the provision of services through a (service provision entity) (legal entity) to a (commercial) presence, person, or good within the boundaries of another signatory state."²

II. Compared to international trade in commodities, international service trade has the following characteristics:

1. It is a unique use-value provided by labor which does not take the form of exchange of goods for money but exchanges labor for money.

2. In international service trade, the provision and consumption of services usually take place at the same time; most are "concurrent" and "nonstorable," unlike goods which can be stored for future use.

3. In international service trade, value itself is separated from the use-value, that is, they are not transferred at the same time, unlike international commodity trade where value and use-value are transferred at the same time.

4. International service trade statistics are reflected in the nations' international income and expenditure statements, but they do not show up in their customs' import and export data.

III. In April 1989, the GATT Secretariat added a "Service Sector Reference List," dividing services into 14 categories with the following descriptions:

1. Commercial services

a) Equipment leasing (not including operating personnel): (1) Transportation equipment: automobiles, trucks, airplanes, boats etc. (2) Non-transportation equipment: computers

b) Real estate services (not including land and leasing)

c) Installation and assembly projects (other than construction projects)

d) Equipment maintenance (not including building maintenance)

f) Services that accompany productions

g) Professional (including consulting) services, such as (1) legal services (2) agricultural, forestry, and fishery services (3) management services (4) engineering design services (5) computer-related services (including hardware consultation, installation, and database management, etc.) (6) tourist organizations (7) urban planning services (8) public relations

h) Others: (1) Biotechnological services (2) Translation services (3) Exhibition management services

2. Communications Services

a) Post and telecommunications services

b) Courier services

c) Electronics communication services, including: (1) Telephone (2) Telegraph (3) Data transmission (4) Telex and fax (5) Radio and television broadcasts (6) Other telecommunications services

3. Construction Services

a) Site selection (1) Buildings (2) Domestic engineering projects (bridges and roads, etc.)

b) Installations and assembly projects

c) Engineering projects

d) Maintenance of fixed buildings

4. Sales services

a) Commercial sales (wholesale)

b) Retail sales

c) Sales-related agent's fees and commission

5. Education

6. *Financial services (not including insurance)*

- a) Banking services
- b) Financial market management-related services
- c) Financial loans
- d) Other loan services (including person loans, collateral, credit card, and other credit services)
- e) Bond market-related services (brokerage, stock issuance and registration, negotiable securities management)

7. *Health maintenance services*

- a) Human health services
- b) Veterinarian services

8. *Hotel and restaurant services*

9. *Insurance*

- a) Freight insurance
- b) Non-freight insurance (1) Life insurance (2) Pension or annuities (3) Disability and medical expenses (4) Property (5) Debt
- c) Auxiliary Insurance Services (such as agencies, consultation, and actuary)
- d) Reinsurance

10. *Personal Services*

- a) House cleaning and repair services
- b) Nursing and other personal care services

11. *Cultural and entertainment services (not including radio, film, and television)*

12. *Liquid asset sales*

13. *Transportation and shipping*

- a) Cargo (1) Air freight (2) Maritime transport (3) Rail transport (4) Pipeline transport (5) Interior river and coastal shipping (6) Highway transport (7) Space launching and transport (including satellite)
- b) Passenger service
- c) Boat leasing (including crew)

- d) Auxiliary communications and transport services (1) customs clearing house (2) cargo loading and unloading (3) warehousing (4) port services (5) pre-sail inspections

14. *Others*

The Origin, Development, and Reasons for International Service Trade

International service trade emerged in the wake of the rise of the capitalist mode of production and continued to develop as the capitalist commodity economy developed.

In the preparatory period of the capitalist production mode, the discovery of the New World marked the rise of the shipping industry. In the wake of U.S. development emerged a large-scale "slave trade" and an international service trade that carried a strong overtone of colonialism. During the period of capitalist free competition, the trade in tangible goods made great strides, and railroad, shipping, finance, and communications and other trade in intangible goods continued to grow. After World War II, with the birth of the third science and technology revolution, all nations, especially the well-developed nations, continued to optimize their industrial structure, and the tertiary industry underwent rapid development. In addition, as the internationalization of capital and international division of labor broadened and deepened, international service trade grew sharply. Its volume increased from \$70-90 billion in 1967 to \$650 billion in 1980. In 1979, the rate of increase in the volume of international service trade surpassed that of commodity trade. In 1987, international service trade volume topped \$960 billion, equivalent to one-third the volume of commodity trade in that year.³

The rapid development of international service trade after World War II was due to the following factors:

One, the service industry developed rapidly in all nations worldwide, especially in the well-developed nations, and services accounted for an increasingly larger percentage of total employment and of the GNP, gaining an absolute advantage. Between 1970 and 1987, the shares of agriculture and industry in the developed and developing nations' GNP showed a downward trend while the service industry's share continued to rise. During this period, the service industry's share rose from 55 percent to 63 percent in the well-developed nations and from 45 percent to 49 percent in the developing nations. Specific changes are as follows:

Table 1: Changing Shares of Industrial Sectors in the Developed and Developing Nations, 1970-1987 (in percentages)

	Agriculture		Industry		Service Industry	
	1970	1987	1970	1987	1970	1987
Developed Nations	4	3	41	35	55	63
Developing Nations	24	15	31	36	45	49

Source: GATT "International Trade 88-89" Table 16.17 (in English)

As the service industry grew, more and more people in the developed and developing nations began to shift away from agriculture and industry. According to GATT statistics, from 1950 to 1980, employment in the service industry as a percentage of total employment rose from 37 percent to 57 percent in the developed nations and from 15 percent to 25 percent in the developing nations. If we include household services and information and workers in the underground economy, the percentages will be even higher.

Two, like the agricultural and industrial sectors, the service industry became increasingly specialized and the scale of economic sector constantly expanded. Specialization and the expanding scale economy led to increased efficiency. As the manufacturing industry's service department became more externally oriented and information-oriented, many service trades separated themselves from the manufacturing industry to become independent trades. The advantages of specialization and economies of scale can be given full play only in the international domain where there is greater efficiency and more profit to be made. Therefore, many service sectors crossed national boundaries and entered into the world market. Their business activities became increasingly internationalized.

Three, the trans-national companies began to engage in globalized production and business activities. After World War II, with the internationalization of production and investments, trans-national companies underwent very rapid development. They often handled everything from commodity trade to service trade and foreign investments. Their globalized investment activities and technology transfer and their internationalized and specialized production promoted the international movement of specialists, technicians, and labor forces, giving impetus to the development of financial, legal, and technical services; insurance, shipping, and computer services; engineering consultation and other services.

The trans-national companies of the developed nations played an important role in international service trade. In the 1980s, among the world's 200 largest transnational companies, 83 earned half of their income from the sale of services.

Four, international competition: To participate in international competition and dominate the world market, enterprises of all nations were forced to turn from labor-intensive industries to capital- and technology-intensive industries. The life cycles of technologies were shortened. They had to utilize new science and technologies and communications equipment to obtain world production, consumption, and trade information and to transfer and allocate funds. These activities greatly promoted the increase in international communication services. For example, between 1979 and 1988, international telephone calls among 10 developed capitalist nations increased from 874 million calls to 2,766 million calls; international telephone calls among 10 developing nations and regions increased from 30 million to 430.5 million calls in the same period.

In the early 1980s, in order to meet the needs of internationalization of markets and in order to compete, the developed nations began to make comprehensive use of computers, communications networks, standardization and other kinds of advanced technologies. Within the realm of international trade, one after another, nations turned to instant transmission of business documents and computer automation. "Paperless trade" began to appear in the global scope.

The above activities not only promoted the rapid development of international communications services but also led to the development of banking, accounting, insurance, management, consultation, law, and other service trades.

Five, diversification of the types of international economic and technological cooperation: With the liberalization of trade and foreign exchange worldwide, the circulation of key productive factors gathered momentum, and the types of international economic cooperation began to increase. For example, there is international credit cooperation, international investment cooperation, international science and technology cooperation, international service cooperation, and various types of international economic aid. As the number of projects in each type of cooperation increased, it led to the development of international service trade.

Six, the rise of international tourism: Because of the development of the communications and transport industries, because of economic development and increased income, and because of the reduction in the number of work days and the rising educational and cultural levels, it became increasingly popular for individuals and groups to travel abroad on vacation. International tourists increased from 25.20 million in 1950 to a whopping 390 million in 1988; tourist income rose from \$2.1 billion to \$195 billion during the same period. These represent 15.5-fold and 92.9-fold increases. Tourist spending began to account for an increasingly larger percentage of the total personal consumption spending everywhere: For the period 1970 to 1986, Australia saw an increase from 0.9 percent to 2.1 percent; Japan, from 0.3 percent to 0.6 percent; Britain, from 1.2 percent to 2.6 percent; Korea, from 0.2 percent to 1.2 percent; Singapore, from 0.8 percent to 7.7 percent.

Tourism is a very broad, complicated, comprehensive kind of service industry. It consists of tourist facilities, restaurant supplies, hotels, entertainment facilities, and the manufacturing and sales of souvenirs and gifts. The development of the tourist trade not only increases foreign exchange income and employment but also promotes the development of industry, transportation, and communications, etc.

Seven, all nations encouraged and supported the development of the service industry. The development of the service industry not only promotes the development of the national economy but it can be an important basis for international competition and for gaining entrance to the world market. That is why some nations have adopted various policies to encourage and support the development of their service industries. These methods include setting up free trade

zones for the service industry; encouraging foreign investors to invest in the service industry; vigorously developing telecommunications technologies; encouraging trans-regional circulation of database; supporting and encouraging the cooperation and integration of international and intra-regional service sectors. The European Economic Community believed that "setting up a common market for services is one of the main prerequisites to the recovery of the common market's economic prosperity." Therefore they have authorized the member nations to allow free circulation of services and to implement service cooperation and integration.

The Pattern of Development of International Commercial Service Trade⁴

I. The Status and Rate of Growth of Service Trade in International Trade⁵

In the 1970s, international service trade had consistently accounted for one-fifth of the total international

trade, and the two had developed at about the same rate. Since the 1980s, however, international service trade has sustained an average rate of development of 5 percent, which is higher than that of international commodity trade (averaging 2.5 percent a year). In the makeup of the total international trade, the shares of transport and tourism have been falling, but the share of other personal services and income (including communications, advertisement, non-commercial insurance, commission, management, leasing, periodical subscription fees, processing and repair, wholesale, professional and technical services) has been rising: In 1970, its share was 6 percent, which rose to 7.5 percent in 1987. Its (annual) growth rate was also the highest—14.5 percent for the period 1970 to 1987, which was higher than the annual rate of increase in international commodity trade (13 percent) and that of international service trade (13 percent). Specific changes are shown on Table 2:

Table 2: Export Shares and Rates of Development of International Commodity Trade and Service Trade, 1970-1987 (in percentages)

	Commodities and Services Export as a Percentage of Total International Trade		Average Annual Rate of Export Increase		
	1970	1987	1970-1979	1980-1987	1979-1987
Commodities	80.5	81	20.5	2.5	13
Services	19.5	19	19	5	13
Transport	7.5	6	18	2	11.5
Tourism	5.5	6	18	6.5	13
Other personal services and income	6	7.5	20.5	6.5	14.5

Source: GATT "International Trade 88-89" (in English)

II. The Statuses and Rates of Development of Various Components of International Service Trade

The export volume of international service trade increased from \$64 billion in 1970 to \$505 billion in 1987—a 7.9-fold increase. Among these exports, other personal services and income accounted for the largest share, with trade volume worth \$201 billion in 1987; tourism ranked second, valued at \$150 billion. They

accounted for 40 and 30 percent respectively of 1987's total service trade volume. With respect to the annual rate of export increase, other personal services and income ranked the highest, followed by passenger service, they both increased faster than the increase in the entire international service trade. Between 1970 and 1987, the three saw increases of 14.5 percent, 14 percent, and 13 percent respectively. See Table 3 for details:

Table 3: International Service Trade Exports by Categories, 1970-1987 (in \$1 billion and percentages)

	Trade Volume		As a Percentage of International Service Trade		Annual Average Rate of Increase		
	1970	1987	1970	1987	1970-1979	1980-1987	1970-1987
Shipping	14	66	22	13	15	1.5	9.5
Passenger Services	3	30	5	6	19	7.5	14
Port Services	8	57	12	11	21.5		12
Tourism	18	150	27	30	18	6.5	13
Other personal services and income	20	201	24	40	20.5	6.5	14.5
Total	64	505	100	100	19	5	13

Source: GATT "International Trade 88-89" (in English)

III. Regional Makeup of International Service Trade

1. The status of various regions in the import and export of international services: In the export of international services, Western Europe ranked first; Asia ranked second, and North America ranked third. In 1987, their respective shares of export of international services were 61.2 percent, 15.2 percent, and 13.2 percent. In the import of international services, the rankings were the same as exports. In 1987, their respective shares were 54.8 percent, 20.4 percent, and 14.0 percent. With regard to annual rates of increase, Asia saw the highest rate of export increase; North America ranked second, followed by Western Europe. From 1980-1987, their respective rates were 7.5 percent, 6.5 percent, and 4.5 percent. With respect to the annual rate of import increase, North America ranked first, followed by Asia and then Western Europe. Their growth rates during the 1980-1987 period were 9 percent, 6.5 percent, and 5 percent respectively. Since the 1980s, West Europe has accounted for the biggest share of international service trade, but North America and Asia have been the most active regions. Because of the decline in commodity prices and their heavy debt burdens, Africa and Latin American showed negative growth in international service trade.

2. The service import and export compositions of various regions:

a) The mix of services exported by various regions:

Other personal services and income and tourism made up the bulk of service exports for most regions. In 1987, other personal services and income accounted for 40 percent, and tourism accounted for 30 percent, of all service exports. Specifically, tourism accounted for a bigger share than other personal services and income among the services exported by Latin America and Africa.

b) The mix of services imported by various regions:

Among all services imported by regions worldwide, other personal services and income ranked first, followed by tourism and then maritime transport. In 1987, their respective shares were 36 percent, 29 percent, and 18 percent.

3. Major importing and exporting nations of international services:

In international service trade, the developed nations all ranked high. Among the exporting nations, 10 nations—the United States, France, Britain, Germany, Japan, Italy, Spain, Holland, Belgium-Luxembourg, and Austria—accounted for two-thirds of the total trade volume. In 1989, they accounted for 65.5 percent of all international service exports. In the same year, 10 nations—Japan, the United States, Germany, France, Britain, Italy, Holland, Belgium-Luxembourg, Canada, and Sweden—accounted for 65.1 percent of all international service imports. In international service trade, the United States, France, and Britain have trade surpluses while Japan has the largest trade deficit. The changes in ranking and shares of the 10 major service trade nations are shown in Table 4:

Table 4: Ten Major International Service Trade Nations, 1987 [as published] -1989 (in \$1 billion and in percentages)

Ranking		Exporting Nation	1989		Ranking		Importing Nation	1989	
1979	1989		Value	Share	1979	1989		Value	Share
2	1	United States	102.5	15.7	2	1	Japan	80.5	12.0
1	2	France	67.1	10.3	3	2	United States	78.0	11.7
3	3	Britain	47.3	7.2	1	3	Germany	70.4	10.5
4	4	Germany	45.4	7.0	4	4	France	52.1	7.8
6	5	Japan	39.4	6.0	5	5	Britain	39.0	5.8
5	6	Italy	37.3	5.7	7	6	Italy	33.0	4.9
9	7	Spain	25.1	3.8	6	7	Holland	24.5	3.7
7	8	Holland	24.4	3.7	9	8	Belgium-Luxembourg	22.2	3.3
8	9	Belgium-Luxembourg	23.1	3.5	10	9	Canada	19.6	2.9
10	10	Austria	17.2	2.6	10	10	Sweden	14.9	2.2
Subtotal			428.8	65.5				434.2	65.1
World			653.0	100.0				669.0	100.0

Source: GATT "International Trade 88-89" (in English)

So far as the developing nations and regions are concerned, they play an insignificant role in the international service industry, and their development is very uneven and is concentrated in only a handful of nations and regions. In 1989, only Hong Kong, Korea, Singapore, Mexico, Taiwan, Thailand, Turkey, and Yugoslavia ranked among the top 25 major international service nations and regions. Together, they accounted for only 10.5 percent of the total international service export volume in that year. In the same year, only Taiwan, Saudi Arabia, Hong Kong, Korea, Yugoslavia, Mexico, Singapore, and Indonesia ranked among the top 25 major developing nations and regions that imported world services; together they accounted for 10.7 percent of the world service imports.

IV. Ranking of Various Types of International Services

1. Transport

In the transport service industry, maritime transport is the most important, and port services rank second; tourist service ranks the lowest.

Since the 1980s the rate of increase in international shipping of manufactured goods by air has exceeded that by sea; the rate of increase in maritime transport of manufactured goods has fallen far behind the rate of increase in international trade of manufactured goods. The main reason is technological breakthroughs which have greatly reduced cost, resulting in many manufactured goods becoming smaller in size but higher in value.

Among various kinds of cargo ships, the number of container ships has doubled between 1980 and 1987; they accounted for 20 percent of the world's maritime transport by loading capacity. Among the developing nations, some major exporting nations and regions of manufactured goods own large fleets of container ships. In 1986, Asia, especially Hong Kong and Singapore, controlled a concentration of 90 percent of the containers of the developing nations and regions. That is why they ranked first and second among the developing nations and regions in the export of port services.

Because of the increase in per capita income and the rapid development of aeronautical technologies, cost has been falling, and as international commodity trade increased, air transport has become the most active part of transport services.

2. Tourism

International and domestic tourism ranks second only to other personal services and income in international service trade. It plays a very important role in some nation's economic development. Tourism is even more important to the developing nations, accounting for more than one-third of their service exports. In the 1970s, tourism was the fastest growing industry in Latin America and the Middle East. In the 1980s, Asia became the most active tourist region. The prosperity of Asia's tourist business was due mainly to trade-related travel.

Major business-related travel destinations include Japan, Brazil, Korea, and Pakistan.

Tourist income has become a major source of income for some nations' international service trade. Worldwide, 32 nations earn more than one-half of their international service trade income from tourism.

3. Other personal services and income

Between 1970 and 1987, this service trade grew at an annual rate of 15 percent. It was the fastest growing sector in international trade, and it has become the most important component in international service trade. Specifically, in the developed nations, more than 95 percent of this type of income is generated by permits, franchises, trademark, technologies and other intangible (intellectual) properties.

[30 Aug 93 pp 29-31]

[Text] Role and Function of International Service Trade

I. International Service Trade Is the Result of World Economic Development and Is a Prerequisite to Its Further Development

The capitalist production method is a highly developed commodity production method. Its establishment and development have led to the continuous commercialization of the world economy and the integration of markets. It started out with commodity trade which was followed by the internationalization of capital and production which turned the world economy into an inter-dependent, integrated body. The result of this process was internationalization of services—the service industry underwent an internationalization process whereby nations infiltrate one another and become inter-dependent.

Affected by the third scientific and technological revolution after World War II, the traditional commodities market continued to develop, and new product markets continued to emerge, creating all sorts of markets for the service industry. The service industry became an indispensable link where nations produced and sold commodities and where commodities realized their value and where expanded reproduction took place. It became the key to the existence and the development of the world market.

The development of the service trade and the development of international commodity trade complement each other and are tied to direct international investments which in turn orient international service trade toward broader and deeper development.

Service trade has become an important component in the nations' economic development. For example, the United States is the largest international service trade nation. The increase in their service exports is the result of their economic development and the development of their service industry, but international service trade

also has a tremendous effect on their economic development, employment, and their GNP; it plays an important role in boosting the United States' status in international trade and allowing them to recover their international economic competitiveness. Through international transport, international tourism, financial and intellectual services, the United States has built a large international service trade surplus.

Developing the service industry and expanding international service trade have become important means for the developing nations to improve their economic and production efficiency and to obtain foreign exchange income and increase employment.

International service trade plays a very important role in market globalization and in worldwide product expansion. Part of this is due to the expansion of service trade itself, but this is also an important way for international commodity trade and service production and trade to expand.

II. The Development of International Service Trade and Commodity Trade Complement Each Other

The development of commodity trade promotes the development of services that are related to commodity trade, such as shipping, port services, and commercial insurances. Conversely, traditional services and the burgeoning services also promote commodity trade. For traditional services, lower transportation cost may promote commodity trade; lower cost of container shipping and air freight also greatly promote international commodity trade.

In the post-war era, what played a even more important role in the development of international commodity trade was the promotion of globalized commodity production and sales. The ever-improving trans-national companies crossed national boundaries to achieve economies of scale and specialization and to lower the cost of human and material inputs. In the internationalization of the sales channels, maritime transport and other sales services played a very important role. When the trans-national companies designed and sold their products according to their global production and business strategies, they had to have detailed information on all sorts of market characteristics, and increasingly they needed all kinds of services to handle the restrictions imposed by distance, languages, customs, laws, and rules and regulations as they made investments and engaged in production.

International service trade and international product trade are complementary. They give impetus to each other. Take transport for example. Increased demand for international transport services came from increased international commodity trade. The tremendous development of international commodity trade after the war spurred the demand for ships, airplanes, railroads, and pipelines. Worldwide sales of commodities, division of

labor, materials processing, and telecommunications services also stimulated the demand for personal computers, telephone and broadcast equipment, satellite and related equipment, and television and VCR and other entertainment equipment.

III. International Service Trade Is a Determining Factor in Competition and Higher Profit

To increase competitiveness, enterprises of all nations, especially the trans-national companies, have increasingly turned to the use of various services in the production, sales, and distribution links to increase the output efficiency of key inputs, lower production cost, and change or improve quality. Thus, a typical contemporary manufacturing industry is one that engages in the production and management of products and services. If an industrial company cannot produce the services needed in competition, it will be forced to pay a high price in purchasing those services, and it will lose its competitive edge in the world market. Companies in other industries are in the same situation. To enterprises and companies of all types, under today's situation of rapid economic development, continuous rise in the technological level, and intensive competition, obtaining low and effective services is a determining factor in their ability to compete in the domestic and foreign markets.

International Service Trade Barriers and the Liberalization of Service Trade

The development of the service industry worldwide is uneven; some nations have undergone rapid development and have become very competitive while others have lagged behind and cannot compete. Furthermore, because of national security and cultural factors, some nations have restricted service import, and as a result, international service trade barriers and liberalization problems have emerged.

I. International Service Trade Barriers

International service trade barriers refer to various restrictions and obstacles imposed by a government to limit the sales of services produced abroad. There are five main types of barriers: (a) Putting heavy burdens on services provided by other nations. For example, a nation may impose discriminatory taxes on imported services; impose per capita tax on tourists traveling abroad; discriminate against imported insurance services and restrict their insurance services. Korea prohibits foreign insurance companies from offering life insurance, automobile insurance, and fire insurance (public buildings).

(b) Putting quantity limits: A nation may restrict the forms of services or prohibit foreign companies from providing certain services. For example, Canada imposes a ceiling on the interests a foreign bank may pay. Some countries limit the amount of stocks a foreign company may issue locally.

(c) Imposing unreasonable demands and standards on foreign service providers: For example, a nation may prohibit the staff of foreign contracting companies from exchanging local currency for foreign currencies.

(d) Restricting the activities of foreign companies: For example, a nation may put restrictions on how foreign companies may appoint local agents or hire professional personnel, or require foreign companies to comply with local communications system and so on, or restrict their business opportunities.

(e) Using various regulations to restrict the transfer of international services, such as limiting the transfer of currency, information, personnel, or related commodities and goods.

Because of the unique character of service trade, nations cannot use tariffs as a trade barrier; most resort to non-tariff barriers.

Among the non-tariff barriers in international service trade, restrictions on traditional service trade primarily fall on transport, tourism, and on foreign banks' local branches and so on. Most restrictions on the burgeoning services fall on three areas: Database management and telecommunications; foreign citizens building new plants, opening banks, or providing technological consultation services locally; foreign banks and enterprises doing business locally. For example, some nations prohibit local use of database processed outside of the country; without the government's consent, foreign citizens may not cross national boundaries to build factories or open banks or provide other personal services in some countries; foreign banks' and enterprises' rights to do business are strictly regulated—for example, a nation may issue a decree to refuse entry, allow only the nation's own enterprises to perform certain functions, or impose government control.

Comparatively speaking, the developing nations are more restrictive about service trade than the developed nations.

II. Liberalization of International Service Trade

In the Uruguay round of multilateral trade negotiations, service trade was an important topic. After the talks, the GATS was drawn up. It contains the following main points:

1. The General Framework of "GATS":

The GATS includes a preamble, six major sections, 35 articles and an appendix. The first section is the scope and definitions. The second section contains the general obligations and principles, including most favored nation treatment, transparency, more participation by the developing nations, domestic regulations, emergency protective measures, measures to protect balance of international payments, government procurements, and subsidies and so on. The third section contains the specific promises, including market entry and national treatment. The fourth section is on the issue of gradual

liberalization. The fifth section is on related negotiations, resolution of disputes, joint action, technological cooperations and so on. The sixth section contains articles on admission and participation in GATS and on effective dates, etc. In the appendix, there is a schedule that lists a nation's specific obligations to promise market entry and extend national treatment. It states all restrictions on market entrance, the conditions and qualifications for national treatment, and the necessary measures and effective dates.

II. GATS's Basic Principles on the Liberalization of Service Trade

1. Most favored nation treatment: Every signatory state must immediately and unconditionally extend to the services and service providers of another signatory state preferential treatment that is no less than what is extended to the same services and service providers of any other nations.

2. Transparency: Every signatory state must immediately (before they take effect at the latest, except under emergency situations) make public all laws, rules and regulations, administrative rules, and other agreements, regulations, and measures related to the GATS, or which can affect its execution, promulgated by the state government, regional government organs, and nongovernment legislative departments and which are already in effect. If a signatory state to this agreement is also a signatory to other international treaties and they are related to or can affect the implementation of this agreement, it should also make public those treaties. If a signatory state's laws should change, or if new laws are enacted, it must notify the entire body of signatories at least once a year.

3. Increased Participation by the Developing Nations:

a) Increased participation by the developing nations should be achieved by letting different signatory states assume specific responsibilities according to Sections 3 and 4—"Specific Undertakings" and "Gradual Liberalization."

(1) Enhance the developing nation's service capability at home and increase their efficiency and competitiveness.
(2) Increase the developing nations' ability to enter the sales channels and improve their information network.
(3) Liberalize the entry into the service industry sector and facilitate the liberalization of the developing nations' service exports and supply formats.

b) The developed nations should help the developing nations' service providers to obtain the following information from various nations:

(1) Business and technical information on service supply. (2) Information on registration, recognition, and acceptance of professional qualifications. (3) Information on existing service technologies.

4. Market admission: With regard to market admission, each signatory state should abide by the restrictions and

conditions listed on the schedule and give other signatory states preferential treatment no less than those listed on the schedule.

If a state's schedule stipulates that more than one supply method may gain admission to its market, other signatory states' service providers may freely choose the supply method they please.

5. National treatment: According to the other pertinent regulations in the GATS and according to the conditions stipulated in a signatory state's schedule, that signatory state should give other signatory states' services and service providers preferential treatment no less than those afforded the services and service providers of its own nation.

Footnotes

1. *Complete Works of Marx and Engels*, vol 26, p 435.
2. GATT "General Agreement on Trade in Services" (in English.)
3. Marie A. Kokabade: "International Trade in Service: Prospects for Liberalization in the 1990s," 1987, p 25.
4. Although the substance and classifications of international service trade were discussed in the Uruguay round of GATT, no statistics were compiled accordingly. In existing GATT analyses of international services, they have followed items listed in IMF's "International Payments" to classify commercial services for analyses and discussions. The IMF classifies commercial services as: maritime transport; other transport (passenger services and port services etc.); tourism; other personal goods, services, and income (including income from labor, properties, and other sources). Because nations do not classify service trade in detail and most services are not recorded at the borders, some nations do not make public information on their service trade, and because statistics of the transnational companies' internal trade are difficult to compile, international service trade volume is substantially below the actual trade volume.
5. Here, international trade includes commodity and service trade.

Problems, Prospects for Suifenhe-CIS Border Trade

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[Article by Sun Tao (1327 3447): "Challenges, Opportunities, and Countermeasures—State, Problems, and Prospects for Development of Suifenhe's Border Trade." The author is associated with People's University]

[Text] In the wake of the collapse of the Soviet Union, the deepening reform and opening up in China, and the easing of tension along the border, China's border trade with the CIS, East Asian, and South Asian nations has

developed and has spread like wild fire in just a few short years. The city of Suifenhe which is situated in the southeastern part of Heilongjiang Province and which has nearly a hundred years of trade history in particular is a wonderful example among the many trading ports along the border with the CIS nations. This article will attempt to analyze the state and the problems of Suifenhe's border trade development to get an idea of the overall situation, and we will take a step further to explore the future prospects of the development of border trade between China and the CIS nations.

I. The State and Characteristics of Suifenhe's Border Trade Development

As our economy develops and the investment environment improves, the development of Suifenhe's border trade is also making big strides and is playing a very positive role in promoting China's and the CIS's economic development. By 1992, Suifenhe's industrial output value has topped 14.77 million yuan; social retail sales volume, 32.09 million yuan; urban and rural savings, 103.70 million yuan; and various economic indicators have been rising at a rate of 40 percent. Specifically, Suifenhe's border trade has manifested the following characteristics:

1. The volume of import and export of commodities has been soaring since year after year, from only tens of thousands at first to \$637.06 million in 1992—with exports worth \$365.53 million and imports worth \$271.53 million, producing an export surplus of \$94 million.
2. The import and export mixes have changed dramatically. In the past, China mainly imported lumber, steel materials, cement, chemical fertilizers, and automobiles and exported primarily grain and oil, canned meat, knitted goods, daily necessities, and native and livestock products to Russia. But since 1992, the Russians have put some restrictions on raw materials exports. For example, they are using "licenses," "quotas system," and "higher tariffs" to limit export. Their basic principle is to encourage the export of technological products and restrict raw materials export. As a result, some Sino-Russian raw materials supply contracts either have been slow in delivering or have simply been abandoned. Currently the Russians are promoting more and more non-raw-material-type commodities, including hand tools, screw drivers, planers and so on. Sales of these goods currently are sluggish.
3. Sino-Russian trade is carried out in many forms, but barter trade still dominates.
4. Sino-foreign investment projects have been increasing rapidly, and Suifenhe has become a hot-point of domestic investments. In particular, impressive progress has been made in attracting businesses. Up to 1992, 580 intended domestic and foreign investment projects have shown intent, and 129 of them have been approved—120 are domestic investments worth 560 million yuan; nine are foreign investments worth 120 million yuan.

Currently, a breakdown of FIEs registered in Suifenhe shows three wholly-owned enterprises, 17 joint ventures, 11 contractual joint ventures. The businesses include the processing of wood products, foodstuff, aquatic products, sanitation apparatus and machinery; electronics assembly work; real estate development; hotels and restaurants; a joint venture printing business and so on. Most investors are from Russia, but there are also a few from Hong Kong and the United States. Most products are destined for foreign sales.

5. Instead of primarily engaging in barter trade in Suifenhe, we are making a transition toward investing directly in Russia. Suifenhe contracted 68 economic and technological cooperation projects with Russia in 1992—41 involved export of labor and services and 27 were engineering projects. The operating units were primarily companies in Heilongjiang, Jilin, and Liaoning. The projects include remodeling, construction, product packaging, medical services, engineering design, vegetable growing, factory work, and timber felling.

Suifenhe's flourishing border trade plays three important roles:

1. It helps to regulate surpluses and shortages, lets the two sides supplement each other's needs and wants, and facilitates the development of the trading partners' national economies. Statistics show that Suifenhe handled 1,183,237 tons of cargo in transit in 1991—779,282 tons were imports and 403,955 were exports, and in 1992, they increased to 1,406,462 tons—998,335 tons in imports and 408,427 tons in exports. In 1992, 110,834 vehicles passed through Suifenhe, compared to 61,376 in 1991. The Chinese side imported mainly raw materials, heavy machinery, and heavy-duty vehicles and so on while exporting mainly light industrial goods, textile products, everyday goods, and household electrical appliances.

2. It helps to expand the scope of employment for local workers and increases employment opportunities. Besides working on the production and management of export commodities in the domestic front, many workers are working abroad and exporting their services. In 1992, 622,805 people traveled in and out of Suifenhe, compared to 132,207 in 1991. The majority were people who went abroad; most were peasants and workers, but there were also merchants and students. Thus, to a large extent, it has eased employment pressure and reduced hidden unemployment locally as well as in the province. At the same time, the workers themselves and the state have reaped substantial economic benefits.

3. It has promoted the area's, the province's, and even the nation's economic, political, and cultural exchange with the CIS nations, turning Suifenhe into an important window and base that "links the south and opens up to the north." Many economic and trade groups, tourist groups, and cultural exchange and political visit groups have chosen to enter or exit through Suifenhe.

II. Emerging Problems in Suifenhe's Border Trade Development

A. From the Chinese Perspective:

1. Some Chinese exports are of low quality and high price, which have ruined the reputation of Chinese products in the CIS markets. Some trading companies, individual households, and speculators ignore trade principles and flood the CIS markets with inferior quality counterfeits, just for a round of fly-by-night business, and many people have come to associate border trade with inferior commodities. For example, there is no quality guarantee for the down jackets exported by China to the CIS nations; some contain untreated chicken feathers, duck feather, chicken droppings, and duck droppings; some are even stuffed with straw. Some tennis shoes begin to crack after one week of wearing and have been called "one-week shoes." Other products have run into the same or similar problems. Failing to make radical improvement in this situation, the future of border trade will be in jeopardy.

2. The import-export mixes are less than optimal, making it difficult for China to maintain its long-term competitive edge. China's border trade with the CIS nations consists mainly of the export of light industrial products, everyday goods, grain and meat and so on and the import of raw materials, heavy machinery, and hand tools. Most of China's export goods are very popular in the CIS markets today, but we should realize that they are in the midst of changing economic tracks, and this does not rule out the possibility of a rapid development of their light industry. With their heavy industry base and state-of-the-art technologies, if they can maintain political, economic, and military stability, it will not take long for them to develop their light industry, and then, rather than trading their steel, lumber, cement, and chemical fertilizers with China, they would be better off producing those industrial and everyday goods themselves. By then, China's export mix will face stiff challenge. Moreover, the CIS nations have all taken steps to restrict the export of strategic goods and materials. For example, the Russian Government has repeatedly ratified the use of "licenses," "quotas," and "higher tariffs" as means to restrict export. On 1 July 1992, the Soviet Federation issued a presidential decree to impose administrative restrictions on the export of strategic raw materials. As a result, China's once very profitable barter trade which is made up primarily of the import of raw materials will face serious challenge.

3. The Chinese side is ill equipped to handle the border trade and has no momentum. This is seen mainly in the inadequate infrastructure, the untrained workers, and the lack of qualified personnel. The name Suifenhe connotes a river but it is actually not a river, and the only source of water comes from a small dam several kilometers outside of the city. This directly affects all domestic and foreign large-scale industrial investments and the development of hotels and restaurants and other tourist facilities. In addition, Suifenhe has only just begun to

build roads and set up telecommunications and other communications systems; it cannot keep up with the fast-growing trade and the investment craze. Looking at the qualifications of the personnel in the import business, those who come to Suifenhe to do business are poorly educated; few understand Russian. Many individual households and speculators know nothing about international practices; they do not care whether their business is legal or illegal, as long as it makes money, it is good enough. There are few far-sighted, qualified managers.

B. From the CIS's Perspective:

1. The CIS nations are politically unstable. They are plagued by racial problems caused by conflicts over properties and land, and there will not be peace within the foreseeable future. This creates a poor environment for investment and trade. At the same time, Russia and the other CIS nations are changing from a planned economic system to a market economic system, and suddenly, hundreds of thousands of economic entities are flocking to the international markets, and there are many fly-by-night companies and speculators and other lawless merchants. They have little knowledge about international trade and little legal concept. Internal relations are out of control, and there are frequent trade disputes and fraud cases, and as a result, transactions cannot be carried out in an orderly fashion.

2. The CIS side has little ability to repay its debts; its contract fulfillment rate is low—generally around 25-30 percent. Since most business between China and the CIS is in the form of barter trade, and there is little use of spot exchange, the very large trade surplus has adversely affected China's economic efficiency, causing serious economic losses. Some CIS nations are facing economic crises and are implementing emergency foreign trade policies—they reward imports but limit exports, and some customers are not delivering their goods as contracted and are not taking any economic responsibility for defaulting.

3. Prices in the CIS nations are soaring, jeopardizing any further expansion in the border trade. The Russian Federation twice implemented measures to decontrol prices. Their inflation rate in 1992 was 2,200 percent which rose another 50 percent in January 1993. This is a serious blow to the border trade. It makes things even more difficult, and some transactions simply fall through because of the price issue.

In addition, China and the CIS face a common problem, and that is the lack of transport capacity. The ports are always jammed with goods, and the transshipments are beyond capacity. Trucks and cars move very slowly, and the freight yards are piled mile-high with goods. As the trade volume increases, this will become an increasingly serious problem.

III. Prospects, Countermeasures in Suifenhe's Border Trade Development

In the course of development of Suifenhe's border trade, it is not difficult to see that its prosperity is closely tied to the domestic and foreign policies adopted by China and the CIS respectively. Looking ahead into the future, we can say that there are pitfalls as well as opportunities. The reason for the opportunities is that the CIS nations have only just opened up their markets, and they need our relatively rich supply of inexpensive products, and China also has a pressing need for some of their goods and materials. Both sides can supplement each other's need for raw materials and products. We should take advantage of the timing and the favorable geographic position to actively develop border trade and promote economic development. The reason for the pitfalls is that China's export-mix is less than optimal. We emphasize the export of light industrial products and everyday goods and neglect exports with high added-value and high-tech products. In the long-run, as the CIS's economy recovers and develops, this export mix will gradually lose its competitive edge in the CIS markets. In addition, Japan, Korea, the United States and other developed Western nations are also eyeing the CIS markets, and they are clearly superior in terms of funds, technologies, and information, and since some of our export goods are of low quality, we will be facing heated competition. Thus, not only Suifenhe, but Heilongjiang, Inner Mongolia, and Xinjiang and others are also facing serious challenges. To maximize long-term profit, we must seize the opportunity and put our effort in the following areas:

1. We should vigorously improve and guarantee the quality of our export goods and improve and optimize the export-mix. In today's increasingly competitive international trade, any enterprise or nation that hopes to maintain long-term competitive edge must give product quality top priority. Enterprises and companies engaged in border trade must look at the overall situation and emphasize long-term profit, insist on quality guarantee, and provide other necessary services. They must not seek quick success and immediate profit or forget their conscience in the presence of profit. Meanwhile, the state must use every means and adopt strict measures to trace the source and get down to the roots to punish those enterprises, companies, and individuals who test the law and ruin the country's reputation, so that we can recover and restore the fine image of our products in the CIS nations. While guaranteeing the quality of our exports, we must also strive to optimize the export mix and increase the export of goods with high added-value, goods that earn foreign exchange, technology-intensive goods, and goods with large market capacity, so that we can maintain stable, long-term competitiveness.

2. While we continue to develop barter trade, we should also actively engage in direct investment in the CIS nations, strengthen economic and technological cooperations, and convert our economic relationship from that

of simple trade relations to economic and technological cooperation. As we mentioned earlier, many CIS nations are implementing measures to restrict raw materials exports. They have come to realize that using timber, steel materials, and cement and other important raw materials for products is like "taking away the firewood from under the cauldron"—it is a drastic measure. There is no room for optimism in the future of our barter trade with the CIS nations. To fight our way into the CIS markets, we must learn from the Japanese: In order to get into the increasingly "defensive" EC market, Japan has actively encouraged and helped enterprises to make direct investments in various EC nations. This not only circumvents the many layers of tariff barriers and non-tariff barriers, but it also allows them to take advantage of the large unified European market's production and sales channels to produce and sell locally. They have been very successful. Everybody knows that many CIS nations' resources and technologies and other sectors play a very important role in the world economy; they possess huge market potential. Many of these nations have highly developed technologies and rich mineral resources, but their light industry, agriculture, food processing industry, mining industry are under-developed. They have trouble converting from the military to a civilian economy, and development of their automobile industry has been slow. All these objective factors have created the conditions for us to move in on their markets to engage in joint ventures to develop industry, agriculture, food processing industry, and the infrastructure. We can also utilize our own experience in converting from the military to a civilian economy to help them set up civilian enterprises. In addition, we can invest in mining explorations, cooperate in automobile production, develop high-tech cooperation, absorb and bring in the CIS's advanced technologies. Only by using our money, technologies, and talents to get into the CIS markets to produce and sell locally can we plant a firm foothold in those markets.

3. We must be better organized, better coordinated, and do a better job regulating our border trade. We should make capturing the CIS markets our main goal and initiate the use of spot exchange in a timely fashion. In today's border trade with the CIS, many enterprises and companies are working alone; they do not have strong and effective production and financial backing. Meanwhile, in order to reach their own goals, some trading units are resorting to slashing prices to make a sale. This is hurting our own people. We are fighting among ourselves in our own territory, and it is the foreigners who reap the profit. We should learn from our own Taiwan's development of border trade. When Taiwan started to trade with the neighboring Southeast Asian nations, they used export credit as a strong financial backing. They were well organized within and united without. Their goal was to capture foreign markets and made big moves only after they had planted a strong foothold. Taiwan's method is well-worth studying as we engage in border trade. Besides barter trade, the CIS nations are also using spot exchange to trade with Japan,

Korea, the United States, and the Southeast Asian nations, and they have just had a taste of the benefits of using spot exchange and are in the process of promulgating a series of policies favorable to such trade. It is expected that spot exchange with gradually replace simple barter trade with the CIS nations. Looking at the future, we should seize the opportunity to develop some projects that utilize spot exchange and capture those markets to prevent being squeezed out by international competitors.

4. We should speed up the construction of infrastructure in the border trading ports and train or send qualified people who are fluent in Russian and who understand international trade practices to engage in border trade. A sound infrastructure is essential to rapid economic and trade development. The high-speed economic growth of China's southeast coastal areas is proof. But Suifenhe and many other border trading ports share the same backward infrastructure problem. Their highways and railways have become "bottlenecks"; their communications facilities are lacking, and power is in very short supply. It is estimated that in 1992 alone, because of its poor facilities, Suifenhe's transit freight was reduced by more than 40,000 tons. Thus, accelerating infrastructure construction is most urgent. In addition, we must select and train better trade management personnel, investment management personnel, as well as translators. "Those who have a talented staff rule the world; those who don't will lose out." Only by having a large group of sharp, qualified, talented people who know their profession well can we shoulder the great responsibility of promoting border trade and conquering the CIS markets.

Measures To Develop High-Tech Industries

93CE0898A Shenyang LIAONING RIBAO in Chinese
15 Sep 93 p 5

[Article by Ke Ji: "Five Experts Propose Strategic Measures for Developing High-Tech Industries"]

[Text] Recently, members of the Division of Technical Science under the Scientific Council of the Academy of Sciences of China Shi Changxu, Wang Daheng, Chen Fangyun, Yang Jiachi and Luo Peilin submitted a consultative report on the establishment and development of China's high-tech industries. This report aroused keen attention from the department concerned.

The five experts conducted extensive investigations and studies on satellite communications, optical fiber information network, laser processing, application of laser technology and ferrous neodymium borax permanent magnetic materials. They believe that efforts must be made to deepen our understanding of the following issues:

—There are five categories of high technology. They are 1) large-scale engineering technology (such as space technology and nuclear technology); 2) basic components and materials (such as micro-electronics slug, laser generator and other advanced materials); 3) key

high-tech products (such as computers and advanced communications systems); 4) the application of high technology; and 5) software and services for high technology. All these are component parts of high-tech industries. We should not concentrate all our efforts in a few special fields such as computers and integrated circuits. Nor should we attach importance to some individual high-tech products only. The first three categories form the core and the basis of the high-tech industries where we need to make large investments in order to carry out production on a fairly big scale. It is inadvisable to disperse our investments in this connection. The other two categories greatly affect the nation's social and economic sectors. We must energetically develop industries in these two categories so as to bring into full play the role of the high-tech industries. We should give full play to the enthusiasm of all sectors, make full use of the market mechanism and keep pace with the needs and the constant changes of the market.

- The development of high-tech industries is closely connected with the formation of these industries, but they are not one and the same thing. If we have the high technology, it does not mean that we can make it an industry. To achieve industrialization, we need to combine the development of all types of technologies, the establishment of various essential factors of production; and the coordination among the production, operational, marketing and service departments. Enterprises, research institutions and colleges are the ones which combine their efforts to achieve this goal. Their main task is to solve key technical problems and provide the necessary knowledge, information, results and skilled personnel. Right now, production is being carried out by research institutions and colleges on a small scale and in a self-sustained manner. If there are no suitable conditions, it will be difficult to turn this small production into an industry. In order to promote industrialization, we must help backbone units which play a significant role in the industry to closely integrate with enterprises and scientific research institutions and form an integrated entity.
- Changes are rapid and competitions keen in the field of high technology. We must make full use of market mechanism and reduce administrative interferences. Generally there are no ready-made market for high-tech products. Also, most of the high-tech products enter the market as essential factors of production. They are not consumer goods. Therefore, we need government policy and encouragement to open up the market. It is important to develop export-oriented enterprises, but the main market of most of the high-tech products is in China. We should not rest content with a small amount of exports while permitting foreign high-tech products to dominate our huge domestic market.
- Large investments are necessary, and risks remain high in the development of high-tech industries which greatly affect other industries as well as our national

strength and defense. Therefore, we need government support and coordination. It is necessary for the government to work out plans and use administrative, legislative and economic means to organize, support and control high-tech industries, particularly those which have a large impact on the social and economic sectors and which are highly competitive on the international market.

The five scientists also made the following suggestions:

1. We must organize people in the scientific and technological, industrial and government sectors to form a special committee for the development of high-tech industries to help the higher authorities make policy decisions. Right now, we must study and work out strategic plans and decide the particular fields in high technology that we need to energetically support in the development of high-tech industries in China.
2. While government investments in the field of science and technology are increasing, we must make use of government policies on market regulation to optimize the structure and broaden the channels for investments.
3. We must specifically encourage scientific research institutions and colleges to cooperate with enterprises.
4. We must support and help develop associations for all trades, organs that promote the use of high technology, organizations that provide technical consultation and services and other nongovernmental media institutions.
5. We must adopt appropriate nontariffs protective measures so that the government and our own enterprises would buy high-tech products manufactured in China.
6. We must encourage international organizations and other nations to set up research and development institutions in our country. It is necessary to participate in various international high-tech research and development plans, and cooperate with other nations in developing and producing tech-tech products.
7. We must support small high-tech companies to develop themselves. We should also vigorously support and adopt various policies to give incentives to those high-tech enterprises which have been established for several years and those traditional industries which have carried out technical innovations and upgraded their products with high technology.
8. We must attach great importance to high-tech products which are well developed and produced in large quantity. Japan and Taiwan have flourished by paying great attention to such products, while U.S. high-tech industries have languished, because the United States pays little attention to the development of such products.

AGRICULTURE

Investment in Agriculture Declines

93CE0888A Beijing NONGMIN RIBAO
in Chinese 9 Sep 93 p 1

[Article by Dispatcher Yin Junxiong (7113 0193 7160) and Reporter Cheng Yun (4453 0061): "Scale of Rural Fixed Asset Investment Expands in First Six Months; Rural Investment Inclined Toward Industry; Agricultural Investment Fluctuates"]

[Text] In the first six months of this year, China's rural fixed asset investment growth exceeded previous years and the scale of investment further expanded.

According to the State Statistical Bureau General Agricultural Survey Team's calculation of selected survey data, in the first half of the year, national rural fixed asset investment reached 110.5 billion yuan, a 44.2 percent increase over the same period last year and exceeding the increase for all of last year. Within that, rural collective fixed asset investment came to 65.29 billion yuan, a 104.8 percent increase and 59.1 percent of total rural fixed asset investment. Rural household fixed asset investment came to 45.23 billion yuan, a 1.1 percent increase. Last year's fluctuating situation remained unchanged. Some 70.12 billion yuan of rural fixed asset investment was productive fixed asset investment, an 86.1 percent increase. Nonproductive fixed asset investment was 40.4 billion yuan, a 3.7 percent increase. The main factor leading to the further expansion of the scale of fixed asset investment was the large increase in productive fixed asset investment.

As regards the investment structure, in the first half of the year, both rural collectives and rural households were fond of industrial investment. Within rural fixed asset investment, industrial fixed asset investment was 50.88 billion yuan, a 142.3 percent increase and 46 percent of total rural fixed asset investment, a 23 percentage point increase over the same period last year. Within that, rural collective industrial fixed asset investment was 49.53 billion yuan, a 145.9 percent increase, and rural household industrial fixed asset investment was 1.35 billion yuan, a 57.2 percent increase. This leads to long-term agricultural investment's being powerless to rebound. In the first half of the year, industrial growth made up 78.2 percent of rural collective investment growth. Other trades including agriculture made up only 21.8 percent. And in rural household investment, which is the main part of rural investment, industrial fixed asset investment increased greatly and the scale of investment in agriculture and other trades decreased correspondingly.

Analysis by relevant experts indicates that although in the first half of the year, national rural fixed asset investment will have increased faster than in previous years, the fluctuating situation in long-term agricultural investment remained unchanged. Especially the pattern

of rural households and collectives' being keen on industrial investment is not helpful in enhancing the foundational status of agriculture and improving agricultural strength. Relevant departments should improve their macroeconomic guidance and turn this situation around as quickly as possible.

State Council Investigates Henan Grain Counties

94CE0003A Beijing JINGJI RIBAO in Chinese
2 Sep 93 pp 1, 3

[Article by the investigation group of the State Council Research Office: "Report on Investigations of Four Major Grain and Cotton Counties in Henan"]

[Text] Editor's note: This investigation report raises an important issue in current agricultural development in China. Agricultural production mainly consists of the production of grain and cotton. Especially, the main grain- and cotton-producing regions are responsible for the important task of providing commercial grain and cotton, but the relatively low economic returns are now seriously adversely affecting peasants' enthusiasm for growing grain and cotton. The phenomenon of "major grain and cotton counties being fiscally poor counties" is rather widespread. How do we resolve such issues? This investigation report suggested some ideas which the localities may consult.

Under current circumstances, the more grain and cotton one produces, the worse off one is; the returns do not square with the contributions. From a long-term perspective, it is not possible to ensure the supply of grain and cotton, which are of strategic importance, without fundamentally changing the above-discussed situation. To clearly understand why the main grain- and cotton-producing regions are not having a square deal, how to resolve the problem, and what supporting policies are needed, we have recently conducted an investigation of Fugou, Taikang, and Yanling, three major grain and cotton counties in Henan. The three counties each deliver 100-300 million jin of commercial grain and 0.4-1 million dan of cotton each year. For contrasting purposes, we have also investigated Xiangcheng County which, while being a major grain county, also has some industrial capacity for the processing of agricultural products. The results of the investigations are as follows:

Predicaments

China is a large country, and regions are very different in the endowment of agricultural resources. The bulk of the grain and cotton which can be sold on the market, after the peasant's own consumption needs are satisfied, comes mainly from some regions, which are the main grain- and cotton-producing regions.

Over the 40-plus years after the founding of the PRC, the main grain- and cotton-producing regions have made great contributions to the industrialization of China. In the process of industrialization in the future, the pressure in relation to the supply of agricultural products,

especially grain and cotton, will continue to exist for a long time in China, and the main grain- and cotton-producing regions still have to assume the important task of providing commercial grain and cotton. However, the current economic arrangements are seriously threatening the main grain- and cotton-producing regions' continued playing of this role. In the current macroeconomic environment based on market economy, it is very difficult for the main grain- and cotton-producing regions to continue to assume that task left over by the era of planned economy. The reason is that assuming such a task made the main grain- and cotton-producing regions increasingly lag behind other regions in the process of economic development throughout the 1980s, and has put those regions in a series of predicaments.

The first predicament: peasant income is growing slowly; peasant lives are not further improved; and production cannot be further developed.

Generally, the income level of peasants in the main grain- and cotton-producing regions is lower than the national average.

In 1992, peasant per capita net income was 784 yuan nationwide, but only 718 yuan in Fugou County which sold 180 million jin of commercial grain and 1 million dan of cotton each year; 502 yuan in Taikang County which sold 350 million jin of grain and 800,000 dan of cotton each year; and 512 yuan in Yanling County which sold 200 million jin of grain and 400,000 dan of cotton each year. The peasants' income level is low because the structure is undiversified, with income from nonagricultural production being too little. Take the example of Taikang. In 1992, the proportion accounted for by agricultural, forestry, animal husbandry, and fishery operations was as high as 88.6 percent, but the proportion accounted for by industrial and side-line operations was only 11.4 percent. However, agricultural, forestry, animal husbandry, and fishery operations accounted for 65 percent of the per capita net income of peasants nationwide in 1991, with 35 percent being accounted for by nonagricultural production.

An undiversified structure mainly based on agriculture adversely affects peasants' income level in two ways:

First, returns on agricultural operations are relatively low, and the income generated by agriculture is unlikely to grow rapidly. Since the early 1980s, the level of agricultural production has been raised substantially, resulting in the current situation where supply of agricultural products, mainly grain, is larger than demand against the backdrop of a low consumption level. As a consequence, the grain market is likely to continue to be weak, and prices are unlikely to increase. On the other hand, prices of means of agricultural production are rising continually. The situation characterized by declines on the one hand and increases on the other hand has been enlarging, instead of reducing, the scissors difference between prices of industrial and agricultural products.

Second, agriculture entails greater risks, and income generated by agriculture is not stable. In 1992, as cotton output was reduced because of disasters, the income of peasants in the cotton-producing regions was lower than the previous year on a widespread basis. Income was 106 yuan lower in Fugou; 74 yuan lower in Taikang; and 106 yuan lower in Yanling. The fluctuation in peasants' income caused by the harvest situation is a major feature of the main grain- and cotton-producing regions.

The peasants' low and unstable income level has not only constrained the improvement of the peasants' lives but also hampered enlarged reproduction in agriculture, and is also unhelpful to the development of rural market for industrial products.

The second predicament: because of the current policies for supporting grain and cotton production and the current system governing the purchasing, marketing, transferring, and storing of grain and cotton, the main grain- and cotton-producing regions suffer from the decline of value that they have produced.

To satisfy the needs of the buying regions, the producing regions first have to make great effort to produce grain and cotton, and then have to harvest and store them. The producing regions are not having a square deal with regard to the two phases.

First, examine the production phase. Governments in the producing regions have to devote funds to grain and cotton production, despite the fact that their financial resources are very limited. To induce peasants to grow cotton, Fugou County has to spend 2.4 million yuan of fiscal funds on providing cotton seed subsidies, and has to spend 2 million yuan on spreading the use of technology. Except for the revenues from the business tax paid by the county's cotton and flax corporation, the county does not get much fiscal gain.

Second, examine the purchasing, marketing, transferring, and storing phase. Under the current policy on rewarding grain and cotton sales, each 100 jin of wheat brings a reward of 2.7 yuan to be used for purchasing chemical fertilizer. Of the 2.7 yuan, 1.35 yuan comes from central fiscal authorities, and 1.35 yuan comes from local fiscal authorities. The part coming from local fiscal authorities is, in the final analysis, the responsibility of the local fiscal authorities of the producing regions, whether in regard to the marketing carried out by the local governments themselves or transfers to other regions. In recent years, it is often difficult to transfer and market grain and cotton, especially grain, after having purchased them. The grain and cotton would then tie up funds and occupy storage space, and the producing regions have to assume the responsibility for interest expenses, losses, and storage expenses. Under the condition of a buyer's market, the importing regions would import as much as would be consumed, reducing the stock to a minimum, thereby transferring the burden entirely onto the producing regions. Even more serious is

the fact that one cannot get paid with money after grain and cotton are transferred to other regions.

The third predicament: the large quantities of grain and cotton goods tie up large sums of purchasing funds, which would circulate slowly; this situation has constrained economic and social development in the main producing regions.

In the main grain- and cotton-producing regions, as peasants' income is not high and as the urban population is small, savings are low and the amount of deposit is small. The situation where loans total more than deposits is a widespread phenomenon in the main grain- and cotton-producing regions. But this does not mean that the main grain- and cotton-producing regions have started many projects and issued a great deal of loans to be used for investment. Purchasing funds which are characterized by slow circulation and low returns account for a large proportion of the credit funds used, and loans used for developmental construction in various sectors represent a very small sum.

The fourth predicament: fiscal revenues fall short of expenditures; it is difficult to pay for routine expenditures, let alone support construction.

The typical image of the main grain- and cotton-producing regions is as follows: "major grain and cotton counties; industrially weak counties; and fiscally poor counties." Fugou, Taikang, and Yanling are all counties which receive fiscal subsidies, but they still have deficits despite all the fixed and special subsidies.

The fundamental cause of the fiscal difficulties is the economic structure mainly based on agriculture. In 1992, agriculture accounted for over 50 percent of the total value of industrial and agricultural output of Fugou, Taikang, and Yanling respectively, but nationwide agriculture only accounted for 19.8 percent of the total value of industrial and agricultural output; in terms of GNP, the proportion accounted for by the primary industry was around 60 percent in those counties, but the national average was only 24 percent. Because of the fiscal difficulties, the main grain- and cotton-producing regions are incapable of gathering supporting funds, thereby missing many investment opportunities.

The Solution

The main producing regions, on the one hand, have to get out of the predicaments, seizing opportunities to accelerate development, but on the other hand, have to continue to provide large amounts of commercial grain and cotton. How to achieve the double goal? The effect and prospect of raising grain and cotton prices, so as to adjust the distribution relationships between the producing and buying regions in regard to the national income, are nevertheless limited. The fundamental way out lies in promoting three major changes in agriculture, developing high-efficiency agriculture at various levels.

The first major change: On the basis of considering the resource structure characterized by a large population and a small amount of farmland, develop land-saving crop-growing operations and grain-saving animal husbandry operations, and develop all agricultural resources, so as to expand the source of food. This is the near-term objective, and the localities can all carry out such activities; once such activities are started, they will respond to market demand, thereby increasing peasants' income.

Developing land-saving crop-growing operations refers to using farmland for developing such cash crops as fruits and vegetables which require more labor and which generates high output values and high returns, so as to raise the productivity of farmland, under the preconditions of raising the unit area yield and total output of grain and cotton and of ensuring the satisfaction of the needs of the state and people. Fugou County had some successful experience. In the first half of the 1980s, that county adjusted the crop mix in the form of practicing double-cropping interplanting of wheat and cotton, thereby increasing the cotton area. At the same time, spread the use of the technique of film-covered seedling growing, and develop melon production; spread the use of the double-film covering technique, arched tunnel technique, plastic tunnel technique, and sunlight tunnel technique, developing the production of winter vegetables. Structural adjustment can double the returns. Rotating grain crops can only result in a net per mu value of output of 123 yuan; the interplanting of wheat and cotton can raise the net per mu value of output to 439 yuan; using plastic tunnels for producing vegetables can generate a net per mu value of output of 5,000 yuan, and using sunlight tunnels for producing vegetables can generate a net per mu value of output of around 10,000 yuan. Nationwide, the adjustment of crop mix also follows this trend. Compared with 1978, in 1992 the per mu yield of grain increased by 197 jin nationwide, and as a result total grain output increased by 275.8 billion jin despite the 200-million-mu reduction in the sown acreage, thereby creating conditions for increasing the sown area for cash crops and for turning farmland into forested land and land used for animal husbandry operations.

Developing grain-saving animal husbandry operations refers to the situation where the crop-growing sector uses such side products as straw for developing secondary production relating to animals so as to combine agriculture with animal husbandry, on the basis of carrying out primary production. Turning crop straw into animal products is an important way to increase the returns on crop-growing operations in agricultural regions. The four counties that we have investigated each keep 100,000-260,000 heads of cattle; in Fugou and Taikang, there is one head of cattle for each household. Animal husbandry will become an important source of peasant income.

Using all agricultural resources for expanding the source of food means, with regard to agricultural regions on plains, that while raising the productivity of farmland, it

is necessary to pay attention to developing and exploiting wasteland, waste waters, courtyard land, unused land around the villages, unused ponds, and other nonfarmland resources. In Zhangdian Village, Liansi Township, Fugou County, in their courtyards the 620 households grow grapes in the amount equivalent to that produced on 200 mu of land, resulting in an average of 800 yuan in income for each household; income from the courtyard economy accounts for 34.2 percent of the total income from agriculture. As is shown here, not only is it possible to exploit waste mountains, hills, and beaches in developing nonfarmland resources, but the development of nonfarmland resources in agricultural regions on plains also has great potentials. Developing and exploiting nonfarmland resources are of extraordinary significance to a country like ours which has a large population but a small amount of land.

Fundamentally, the essence of the first-step change lies in developing labor-intensive high-efficiency agriculture by fully exploiting the strength in the labor resource, thereby increasing peasant's income through expanding employment opportunities in the agricultural sphere.

The second major change: Break down the traditional undiversified structure based on agriculture, and vigorously develop the processing industry which uses agricultural and side-line products as raw materials as well as the businesses of transporting and marketing agricultural and side-line products, so as to have the primary, secondary, and tertiary industries promote each other, thereby carrying out several rounds of value addition. This is the medium-term objective. Some regions have started to pursue this objective, and such activities should spread to regions where conditions are ripe.

China has entered the middle phase of industrialization, and has thus the necessary conditions for using industrial civilization and industrial means to increase the content of agriculture, turning traditional agriculture of the raw material type into agriculture of the product type. This is a direction in which the development of high-efficiency agriculture is to be carried out.

Treating processing as a phase of agricultural production represents substantial renovation of the traditional view on agriculture. We are in a stage of transition to market economy, and should organize business operations on the basis of maintaining the following sequence: trade, industry, and agriculture; that is, we should develop processing industry in accordance with market demand, and arrange agricultural production in accordance with the needs of the processing industry. The integration of trade, industry, and agriculture is not only an effective economic organizational form meeting the requirements of market economy, but should also represent the guiding idea on modern agriculture.

The existing state-owned and cooperative merchandising organizations are now hardly capable of accommodating the continued increase in the commercialization rate of, and the volume of trade in, agricultural products and the

processed goods based on agricultural products. It is necessary to nurture new transporting and marketing actors, and encourage peasants to get organized and enter the circulation sphere.

Xiangcheng County has taken a successful step. The gourmet powder plant, formed through merging a small malt sugar factory and a small distillery in the early 1980s, can each year produce 60,000 metric tons of gourmet powder and process 600 million jin of maize which is more than double Xiangcheng County's maize output. Turning maize into gourmet powder generates an value increase of more than 300 percent, and has also provided 8,000 jobs. While developing the cattle farming industry, the county has increased the number of leather-product enterprises to 1,012. Those enterprises employed 35,000 persons and produced an output value of 360 million yuan in 1992; the output value can reach 700 million yuan this year. The county's fiscal revenues total over 60 million yuan each year. In addition to meeting the needs for routine expenditures, each year the county uses 15 million yuan of its discretionary funds for developing agriculture and other projects. As practice has shown, developing the industry processing agricultural products represents a key passageway through which traditionally agricultural regions can get onto the track of industrialization and the main medium through which traditionally agricultural regions can take part in the process of industrialization.

The third major change: Provide guidance so as to have the industry processing agricultural products and other nonagricultural operations relatively concentrated and to have block development carried out, proceeding with the industrialization of the economy and the urbanization of the population in a synchronized way; develop large-scale agricultural operations after part of the labor force has left farmland in a permanent manner. This is the long-term objective and also agriculture's ultimate way out.

Without generating returns of scale, agriculture will not truly be high-efficiency agriculture. The transition from people's communes to the output-linked household contracted responsibility system ushered in the first leap in China's agriculture, and made China's agriculture climb a steep step. However, with the large-scale development of township enterprises, some peasant households and labor force have begun to carry out diversified operations, and the share of agricultural income in the household income is gradually declining, with agriculture becoming increasingly a side-line business. Agriculture's becoming a side-line business is conducive neither to the technological progress of agriculture nor to the development of agricultural productive force. As the scales of operations of those peasant households engaging exclusively in agriculture are too small, agriculture is unlikely to achieve new breakthroughs. A new leap in agriculture will have to rely on combining the block development of township enterprises with the building of small rural towns and on the transfer of large amounts of rural labor force to nonagricultural sectors; thus, as those rural

workers become residents of small towns and are separated from farmland, large-scale agricultural operations can be carried out, leading to a new leap. Relative concentration and block development are also conducive to agriculture's producing the concentration effect. Achieving returns of scale in agriculture and producing the concentration effect in nonagricultural sectors will be the motive force propelling the next step of change. Not only will traditional agricultural regions take this step sooner or later, but other regions will also develop in this direction. This is the approach to China's industrialization and to the modernization of agriculture in China which will inevitably be selected. Several townships with developed township enterprises in Xiangcheng County have already shown some signs in this respect. Surely, most regions do not yet have the conditions for introducing this change. But, we should consciously lead things to develop in this direction. While this matter should be placed on the agenda as soon as possible, it is nevertheless not proper to be overhasty. Small rural towns will be formed naturally in the process of relatively concentrated development of township enterprises according to plans, and will thus be formed in a gradual process. It is not proper to conduct crash activities to meet artificial deadlines, activities which would lead to a situation of construction under way everywhere, causing a kind of "small town craze."

Policies

To help the main grain- and cotton-producing regions achieve the three major changes in agriculture, the center, the localities, and the organizations concerned should provide some support.

1. Enhance the construction of agricultural infrastructure, and improve the main grain- and cotton-producing regions' production conditions, turning existing farmland into farmland which generates high and stable yields irrespective of drought or flood. There have not been any major breakthroughs in regard to the comprehensive agricultural productive force of the main grain- and cotton-producing regions since the mid-1980's. Output would increase to some extent when the weather is good, and would decrease to some extent when the weather is bad. In the absence of fundamental improvement of agricultural infrastructure and of new technological breakthroughs in agriculture, the comprehensive capacity for grain and cotton production will continue to hover around this level. In investing in the construction of agricultural infrastructure, it is necessary to be tilted in favor of the main producing regions which have great potentials for increasing production and which enjoy a high rate of commercialization. It is proper to consider being tilted in favor of the several hundred major grain and cotton counties nationwide.

2. Increase credit funds for supporting the development of the industry processing agricultural and side-line products and other township enterprises in the main grain- and cotton-producing regions. As the main grain- and cotton-producing regions are characterized by low

income and small savings, in such regions the credit funds that can be used for other purposes are limited after the needs for funds for purchasing agricultural products are satisfied; it is difficult for the main grain- and cotton-producing regions to achieve economic development by just relying on their own accumulations. The state should provide some support which should be concentrated on the major grain and cotton counties.

At the same time, in the future the state should locate new projects of facilities processing agricultural and side-line products in the main grain- and cotton-producing regions; in principle such projects should no longer be located in large and medium-sized cities. As should be noted, transferring the industry processing agricultural and side-line products to the main producing regions is in line with the need for raising the efficiency in resource allocation, and represents the general trend. This should be treated as an important part of the state's industrial policy.

3. Enhance the study, introduction, and publicizing of new grain and cotton technologies, so as to make the qualities of grain and cotton meet the requirements set by the domestic and external markets. An important reason for the current weak market and low prices for agricultural products is low quality and the failure to accommodate market demand. High quality is the precondition for high efficiency, and it is necessary to carry out efforts to improve the qualities of grain and cotton without delay. With regard to gathering the funds needed, the following two methods can be considered: one is to appropriately increase the proportion of investment used for developing improved varieties and for improving the qualities of grain and cotton; the other is to induce and encourage the buying regions and processing enterprises to link up with the producing regions, carrying out joint-venture operations to develop high-quality agricultural products.

4. Set up a grain risk fund as soon as possible, so as to ensure the implementation of the policy of maintaining protected grain prices. With a grain risk fund, it would be possible to provide effective protection of grain prices on the market. When market prices of grain fall below the protected prices, the state would purchase grain at the protected prices, until market prices of grain are pulled down to the level of protected prices, thereby preventing the situation where low grain prices hurt agriculture in a bumper harvest year. The state would sell the grain purchased at the protected prices when market prices of grain have risen in an excessive way, so as to protect the interests of consumers. The grain risk fund would provide the funds for paying for the price differences and other resultant expenses.

5. The state's policy for supporting grain and cotton production and overall agricultural development should be tilted in favor of the main producing regions; policies that also apply to other regions should be completely implemented. It is necessary to revise and perfect, as soon as possible, those policies against which peasants

have grievances. It is also necessary to pay attention to adjusting the part of the current policy mix which is not conducive to the sustained and steady development of the main grain- and cotton-producing regions, so as to reduce as much as possible policy factors' adverse impact on the main grain- and cotton-producing regions.

Guizhou Grain, Rapeseed Area

94CE0085H Guiyang GUIZHOU RIBAO in Chinese
8 Oct 93 p 1

[Summary] By the end of September the summer grain area in Guizhou Province totaled 14,552,000 mu, an increase of 538,100 mu over 1992, the rapeseed area was 5,510,000 mu, and the green manure area was 4,560,000 mu, an increase of 801,900 mu.

Hunan Farmers Respond To Reducing Burdens

93CE0888B Changsha HUNAN RIBAO in Chinese
14 Sep 93 p 7

[Article by Luo Lihua (5012 7787 5478): "Lightening Farmers' Burdens Still Needs To Be Relentlessly Implemented"]

[Text] Recently this newspaper's public service department has received letters every day with farmers' reflections on the issue of reducing farmers' burdens, forty to fifty a week. These letters come from every locality, city, and prefecture of the province, but the greatest number come from such places as Shaoyang, Hengyang, Changde, and Chenzhou. In the letters, the farmers sincerely approve of the series of decisions of the party Central Committee and the State Council to reduce farmers' burdens, but they also relate specific cases where their village or organization still endures the "three chaoses" coming from various quarters. Some farmers' burdens are not reduced, but are getting heavier and heavier. In reviewing these letters, we can see that they are generally concentrated in reflecting these issues:

The first is that the township and village cadres persist in their old ways. With their mouths they shout "reduce burdens," but they do not actually take action. Certain township and village cadres even disregard the directives from the party Central Committee and the State Council and pay no regard to farmers' mounting difficulties and still arbitrarily increase the farmers' burdens. A rural household from Ningxiang County sent this newspaper "notices of various state tasks to households" issued to their village. In 1992 the total figure was 199.38 yuan. This year it has reached 285.75 yuan, a 43.3 percent increase over last year. This year Xianrenqiao Township, Hanshou County's township unified plan and village retention collections reached as high as 12.6 percent. Some townships and villages have not corrected their former errors when they collect fees. When farmers sell products, they force them to deduct various fees to be handed over. For some farmers who have difficulty handing them over, they even adopt brutal and arbitrary methods. Some township (town) cadres even publicly

announce that for those fees that are not cleared up before 15 August, a work team will be invited to come to the house and charge a 50 yuan fee for each visit.

The second is hoodwinking people and continuing to indiscriminately apportion in a different form. Letters from quite a few farmers reflect that in this year's fees items that are reduced or eliminated in the Chinese Communist Central Committee and the State Council notices have their names changed or are combined by the township or village. For example, they top the broadcast television fee with a "public welfare fund," combine a family planning tax with the health fee, and change the fee for the pool of resources for operating schools to an "accumulation fund." In some localities that had not deducted such charges as "accumulation funds," "public welfare funds," and "special product taxes" in more than ten years, they appeared again this year. Some of the letters that are coming in also reflect that township and village cadres, to increase their revenue, go so far as to exaggerate farmers' per capita income. Those who have a per capita income of only a few hundred yuan are said to have 1,000 yuan. In a letter from a farmer from Zimenqiao Town, Longhui County, he said that he receive two tax notices in the month of July, from the village and the town. The village wanted him to pay 45 yuan for the unified plan and the town also wanted him to pay 61.68 yuan. The villagers are extremely indignant with these changing tactics to increase revenue. They ask, "How can this kind of cadre preserve unity with the party Central Committee?"

The third is that various practices of the professional department actually are multiple burdens on the farmers. Some of the letters received proposed some specific ideas concerning such departments of some localities as grain, electric power, supply and marketing, banking, animal husbandry, farm machinery, and education. For example, the grain departments of some counties, without signing a grain purchasing agreement with the farmers, ordered the farmers to hand over their grain at last year's purchasing figures, and there was only the unified list purchasing price and nothing in accordance with the market principle. The farmers believe that they are getting the worst of it. Some electric power departments spread the electric circuit lost electrical fees to the farmers and the rural electric stations still want to collect administrative fees, replacement and maintenance fees, and electricians' allowance fees. Supply and marketing departments when supplying quota chemical fertilizer, fall short of the requirement. Some vouchers can only buy 50 percent of the fertilizer quota. Some animal husbandry departments, when collecting livestock, fowl, and product quarantine fees, do not implement the pricing department's clear and specific cable lowering pricing standards and still use strong words to overcome logic saying, "We have not seen the official document." Some localities want to collect a hog raising fee or a slaughter tax from both the hog-raising households and the nonhog-raising households. The annual interest rate on rural household production fee loans

issued by the Taoyuan County credit station this year is 21.6 percent and the highest reach 25.2 percent. The Xiangtan county, Yisu He district farm machinery station in August still was collecting farm machinery administrative fees. Some letters reflected that farmers' affairs were difficult. Money was required everywhere to open the way. To install on new transformer it still was necessary to send gifts and invite guests, and the entertainment expenses and gift expenses that grassroots units spend when some department personnel go down to the countryside are also spread to the farmers.

The fourth is that there are excessive cadres in some local townships and villages, increasing the burdens on farmers. Quite a few letters received point out that township and village cadres cannot be streamlined as they should be. These cadres receive a salary and still want to pass down such expenses as township fees, overtime pay, and bonuses and in the name of fines,

visiting fees, and portage money, increase the farmers' burdens. There are some cadres that have not been released from production who do not work themselves. They let their good fields lie fallow and lead a comfortable life. There also have been letters received that reflect that certain cadres take farmers' wealth through graft.

How we reduce the farmers' burdens will affect the development of the national economy and political stability. In the preceding stage, quite a few localities have accomplished several solid and effective activities in this respect. The masses are calling on all localities to resolutely implement the various decisions to reduce burdens issued by the central government and the province and conscientiously protect the farmers' interests to stabilize agriculture and develop agriculture to accomplish the efforts that it should.

Paper Says School Principals Incumbered by Unrelated Tasks

93CM0506A Beijing GUANGMING RIBAO in Chinese
16 Sep 93 p 2

[Excerpts] [passage omitted] Being a principal in an elementary school or a middle school is by no means easy. The official title is not big and the position is not high, and yet it has many responsibilities. What are these principals doing and what are they contemplating? How does one fulfill the role of a principal? With these questions in mind, the reporter of this article recently visited a few elementary and middle school principals in Beijing. [passage omitted] Beijing Yucai School Principal Wong Jiwei told the reporter that there was a debate in educational circles centering on whether school principals should be education-oriented or profit-oriented. I believe that principals should be education-oriented, and this is irrefutable. For those principals whom I have visited, the most important concern is teaching quality. Principals often speak of teaching quality in meetings as well as private conversations. Although it is shared knowledge by principals that they should be education-oriented instead of profit-oriented, they still have to deal with money issues. At present, it has become common knowledge that elementary and middle schools suffer from insufficient funding. A key middle school principal told the reporter that the school's higher authorities allocated to this school an educational fund of 6,000 yuan per month, covering the costs of teaching, library, water, and electricity, as well as telephone. But just water and electricity alone would cost this school more than 8,000 yuan per month. Where to find the rest of the needed money? It will not fall from the sky, and it is up to the schools themselves to find solutions. One elementary school principal says that in the past twelve years of his incumbency he used to be able to get by through delaying and begging tactics even though the school was short of educational funds; but those tactics will not work now and he has to raise the funds by rushing around and competing with others. This reality is forcing schools to engage in business activities, commercializing themselves. As such, many schools have set up school-run enterprises, fostering a group of entrepreneurs at the educational battlefield. How can principals maintain the quality of teaching while ensuring profit-making for the schools? This issue has baffled some principals. Beijing 171 Middle School Principal Zhou Bainian holds an incisive viewpoint; he has pointed out that it is not easy for a principal to become an entrepreneur, but for a principal to use entrepreneurs well is not difficult. The crucial issue for school-run enterprises, for example, is to select and use the factory manager properly. If the factory manager is given proper responsibilities, no matter how many problems this enterprise has and how complicated these problems are, the principal can always be detached. Through years of exploration, many elementary and middle school principals have figured out the tricks of managing schools and school-run enterprises—employing talented persons to be in charge of school-run

enterprises. Some principals have sacrificed their best teachers for the school enterprises, and some have condescended to hire talented persons from other units to be their factory managers. They proclaim that it is worthwhile using a factory manager properly and thus freeing a principal. Statistics show that elementary and middle schools nationwide have lost 216,000 teachers last year, which stands for 2.4 percent of the total elementary and middle school teachers. The figure is shocking and people are worrying. However, no one can be more apprehensive than principals. Many principals told the reporter uninhibitedly that to stabilize the teaching forces is currently the most irksome issue for them. For many principals, the key to stabilize the teaching forces is to reassure people's feelings. Principal Sun Yanhui of the Beijing Dengshikou Elementary School believes that the best way to reassure people is by empathy and management. Specifically speaking, principals should treat teachers as their close friends, empathizing with them. Like other intellectuals, teachers also have some concerns, including rank, income, and housing. As such, principals should endeavor to help teachers solve these problems. In fact, many principals have been working hard to ameliorate teachers' benefits: To improve faculty living conditions, the Beijing Bayi Middle School and 97 Middle School have raised funds to build faculty housing, receiving high praises from the teachers; the Beijing Tourism College Middle School has been trying to improve teachers' living conditions by every possible means, and is well regarded by its faculty; and the Beijing Qiushi School has implemented the "teacher retirement fund system," through which teachers can enjoy 150 to 300-yuan social security benefits after they retire, hence removing teachers' fear of later life difficulties. All these involve principals' painstaking efforts and are largely due to principals' contributions. In addition to supervising school instruction, managing fund raising, and stabilizing the teaching force, principals have often been burdened by miscellaneous routine matters such as meetings, receptions, and business trips. Thus they often feel overwhelmed. Many principals have said that they have been haunted by many people from June to August every year. During the period of school admissions and entrance examinations, many people collect for back door deals and networking, making principals tremble with fear. Whenever principals go to their offices, there are always many unexpected guests in the offices—some bring gifts with them, some bring notes, and some even have coercive oral messages from the higher authorities. You have to try every means possible to dispel these people; therefore you grieve, explain, and persuade. Finally you dismiss one guest, but others arrive again. You can hardly handle this situation. Hence, you can see how troubled and worried these principals are. They yearn for time, freedom, as well as understanding and support from society. Let us free principals from routine trivia and outside disturbances. For the sake of the educational cause, we should give principals more time and more freedom. Students, teachers, and parents are making appeals, and so is society.

Anticorruption Struggle in Shanxi Province

93CM0508A Beijing NONGMIN RIBAO in Chinese
10 Sep 93 p 1

[Article by Ma Xiaolin (7456 1420 2651): "Anticorruption Struggle Sweeps Throughout Shanxi Province"]

[Text] From 1990 to the end of last August, the provincial agencies of discipline inspection and supervision received a total of 116,451 letters and visits from the public, investigated and tackled 31,391 cases of discipline breaches, and concluded 27,438 cases. They imposed penalties on 26,360 party members and cadre offenders, of whom 475 were at and above the level of county and department. One major characteristic in the anticorruption struggle initiated by the Shanxi discipline inspection and supervision agencies is that the administrations take the lead with a focus on the problems within the power structure. The offices under the provincial government have taken as the breaking point the investigation of major cases in their anticorruption campaign. This year, discipline inspection and supervision agencies of these offices have tackled 50 cases. During the process, they have focused time and efforts on problems at the hot spots of public concern and directed their attention to the investigation of party members and cadres holding offices at and above the deputy departmental levels and to those departments in charge of personnel and treasury. Twenty-three of these cases each involved more than 10,000 yuan and 27 cases involved cadres of party members above the deputy departmental level. Yin Pengchang [3009 7720 2490], chief of the economic section under Department Two of the Shanxi Police Station, demanded a 'commission' of 20,000 yuan when contracting for police uniforms. He was expelled from the Party and sentenced to six years of imprisonment. Jia Yingqi [6328 6601 2475], vice-chief assistant of the personnel department of the provincial construction bank, in collaboration with others, was engaged in an illegal gold business. He was also expelled from the party and received eight years' imprisonment. The other characteristic of these agencies in the anticorruption struggle was to develop collective toughness on hard nuts and intensify investigations on major cases. In Yuncheng District, agencies of discipline inspection and supervision coordinated with law enforcement agencies and successfully cracked down on several thorny cases. Wu Tongan [0702 0681 1344], former detergent factory director of Yuncheng District, brought about 15 million yuan losses to the factory for his serious neglect of duty in his office. He spent 80,000 yuan building a luxurious house, abusing his power and arousing a strong reaction from the public. Wu Tongan, however, displayed signs of arrogance because of his powerful backers, extensive personal connections and his status as the provincial model worker. When the quality supervision agencies criticized the factory's products for their poor quality, he adopted an "eye for an eye" strategy by spending huge amounts of factory funds to have the television station put on a movie series "Slander" to repute the agencies' criticisms. In the past, agencies concerned from the

province and the prefecture attempted two investigations in the factory but came to no avail because of obstacles. In order to conquer the 'stronghold', the prefectural agencies of discipline inspection and supervision selected over 30 capable persons to formulate a team for the investigation. The team overcame opposition and interference from different sources and eventually unveiled the problems associated with Wu Tongan, sending him to court. Twelve persons were convicted, and 18 were disciplined.

On 5 September, the provincial party committee and government put up a rally on anticorruption mobilization and issued the "Resolution on Deepening the Anticorruption Struggle," imposing "ten don'ts" on cadres at and above the level of county and department in the province. The resolution required that leaders of the party and government at all levels be the models of ethical purity and self-discipline. It also emphasized that the anticorruption struggle must attain its goal for this stage in a timely manner.

Relationship Among Literature, Markets, Readers

93CM0003B Shanghai WENXUE BAO in Chinese
26 Aug 93 p 2

[Article by Geng Linmang (5105 2651 5462), a poet from Shandong: "Literature, the Market, and Appreciative Readers"]

[Text] Literature—the fruit of authors' creativity—is in search of readers who will appreciate it. Readers who ardently love the written word are in search of the books they love to read—works of literature. This must be done through the marketplace. The problem is, the fine works of literature, those serious and pure literary works, or what might be called refined literature, cannot get onto the market. In the market, there are plenty of best-sellers from Hong Kong and Taiwan, collections of curiosities, sword and sorcery books, sensational books, books on the bizarre and uncanny, and even pornographic, and near-pornographic books. Therefore, there has come to be a game of "hide and seek," where literary works, and the readers who appreciate them, seek out each other, both inside and outside of the market. Literary works and the readers who appreciate them, are hard put to meet. They are each on the "other side," separated by a great churning torrent of commodities.

Literature, by its nature, is not a commodity. It is an expression of the spirit, a movement of humankind in the experience of beauty, an intermixing of culture, and a perception of the soul. The creativity of the author, and the appreciation of the reader both represent aesthetic satisfaction on two different levels. When Yu Boya [0205 0130 3660] strummed "Mountains and Streams," this was at first an expression of his spirit accomplished through musical melody and achieving thereby the joy of the aesthetic experience; only afterwards was it offered to his bosom friend Zhong Ziqi [6945 1311 2601]. When

Zhong Ziqi died, Yu Boya played no more, and ceased his creative activity. This has nothing to do with the marketplace. The poets of ancient times wrote poems solely for themselves to recite, or for two or three intimate friends to copy for their own use and privately peruse. The printing of poetry in books and its circulation in village squares came later. Once poetry entered the markets and especially markets of the modern kind, then things became complicated.

In a society where greed and material desires run wild and the worship of money is everywhere triumphant, one can easily imagine what sort of reading matter people are eager to buy. Among the classics, "The Dream of the Red Chamber" does not fill the bill, and only an unexpurgated version of the "Golden Lotus" hits the spot. Publishers and booksellers obey the "laws of the marketplace," under the majestic banner of "economic efficiency." Who will accept those unfashionable works of pure literature? The author sheds his heart's blood, but cannot get on the market. Who among the dirt poor but naively honest poets can afford to buy a "book number," or pay all the many and varied "editing fees" and "service fees?" When a prostitute sells her body, in the final analysis it is the john who pays; when an author sells his manuscript he must make a large "repayment." This is the special "care" given to pure literature in present-day China's market economy. Even if, after tremendous effort, he can win acceptance through the generosity of a good-hearted editor at some publishing house and get his book on "the list," still, when orders are placed, he cannot pass the final hurdle of the book seller's check off. As always, the "incorruptible impartiality" of "economic efficiency" prefers to order 10,000 copies of Qiong Yao [8825 3852] or Liang Fengyi [2733 7364 0308] and does not want one copy of a collection of pure, literary poetry. Moreover, the buyers and salespeople at some bookstores, are pitifully lacking in cultural and literary knowledge. At a large bookstore in a provincial capital, when I ventured to ask, "Do you have a collection of poetry by Ai Qing?" the reply was, "We have no love [aiqing] poetry!" No wonder old Mr. Ai laughs bitterly, saying, "they only know about love poetry, they don't know about mine."

Is it possible, that pure literature is really at the end of its rope, and there is not one appreciative reader for it out of 1.1 billion people? It isn't necessarily so bad as that. Many young people, who love literature and search the bookstores again and again, "wearing out their shoes, and leaving no stone unturned," cannot find a volume of new poetry by any eminent contemporary poet. This is even more so for unfortunate readers who live in remote villages or in isolated small towns. I am a "poor" author, who has not published many books, but I often receive letters from readers I have never met. Some of them send me money and ask me to buy a copy of my prose or poetry for them. Just yesterday I received a letter from a young man in Sanming City, Fujian Province, whom I do not know, saying: "I like your work, and whenever a magazine comes in with something of yours in it, I must buy it...."

On the one hand, there is the isolated author, the sad-faced, sincere and honest writer with his pile of manuscripts; and on the other hand there are readers who want to buy the fine works of literature that they enjoy and appreciate, but cannot. The two are separated by a dazzling, ocean-like "cultural marketplace": multitudes of publishers, booksellers, and book stalls. This is the present fact faced by pure literature and its authors and readers: "They look with eager expectation, but the longed for person cannot be seen."

Octavio Paz, the Mexican poet and winner of the Nobel Prize for literature, has said: "The nature of literature is consistently to stand alone and buck the tide. To make it obey the rules of commercial exchange, is the same thing as cutting it off at the root." Sincere and conscientious poets and writers cannot change their course to suit the demand of the market for the superficial and the vulgar. It would be better to follow the example of the fragile-spirited Lin Daiyu, who committed his poetry to the flames. One fears this is the not the best course. What shall we do, then? People say, "When a baby cries, give him to his mother." Where is the mother? Who is the mother? Related government departments sit and watch, while non-popular literature lies on its deathbed and the masses of readers go on hungering and thirsting unbearably. They should rather stretch out a helping hand and manage the situation through policies and actions so that each author can fulfill his potential and each reader can find what he needs. Naturally, this would be an undertaking of limitless value. But, is there a mother like that? And where is the mother?

Three Provinces Undergo Anticorruption Campaign

Guangdong Investigates 572 Major Cases

93CM0506B Beijing GUANGMING RIBAO in Chinese 13 Sep 93 p 1

[Excerpt] [passage omitted]—In the first seven months of this year, our province has investigated and dealt with 572 major law cases, a proportion of 74.8 percent of all cases filed. Among the cases cleared, 112 cases involved 100,000 to 500,000 yuan, 16 cases involved 500,000 to 1 million yuan, and 28 cases involved more than 1 million yuan. Guangdong Province has severely cracked down on corruption and has adopted various measures including cooperative leadership, empowering case investigating forces, encouraging reporting of crimes, strengthening guidance, preemptive attack, and augmenting case investigation ability. Notable progress has been achieved in case investigation. In Shenzhen City alone, 51 of the cleared cases this year involved more than 100,000 yuan, taking up more than half of the total cases filed. The former director of the Shenzhen City Housing Board, Chen Binggen [7115 3521 2704], embezzled 230,000 yuan; the Shenzhen City Intermediate Court formally charged him for bribery and embezzlement in August this year and sentenced him to death. The Overseas Chinese Area Economic Development

Firm under the Xinhui City Construction Materials and Housing Corporation was a small company staffed by five employees. The former president of this company, Yu Haojie [0151 6275 2638], conspired with his associates, Tan Yuxiong and Zhang Peishun. They borrowed money from banks as well as the concerned departments and went to the Pujin Hotel in Macau to practice usury and gambling. They dined, drank, visited prostitutes, and gambled, doing all sorts of shameful deeds. Every time Yu Haojie visited Macau, he always indulged himself in dissipation and luxury. He spent six to seven hundred yuan each day on fruits and visited prostitutes and masseuses almost every night, squandering money. He has caused more than 17 million Hong Kong dollars of loss for the company. The Provincial Procuratorate Anti-Corruption Department has cracked a case involving the chief executive officer of the Shenzhen Engineering Consulting Corporation's Guangzhou Branch, Zeng Lihua [2582 0448 5478] (female, with an official title tantamount to a vice provincial department head). She has taken bribes totaling 7 million yuan, thus becoming the most serious bribery offender unearthed thus far nationwide. Guangdong continues to combat embezzlement and bribery, unabated. Since 1990, the province has sentenced more than 2,000 people to set terms of imprisonment, and condemned quite a few to death or death sentences with stay of execution. Among those convicted, some are provincial cadres and some are local figures with real power. [passage omitted]

Fujian Strengthens Punishment of Corrupt Leaders

93CM0506B Beijing GUANGMING RIBAO in Chinese
13 Sep 93 p 1

[Passage omitted] Since the second half of last year, there has emerged a view in some localities that "if economic reconstruction is to move ahead, disciplinary inspection and procuratorial bodies should yield," severely impairing disciplinary inspection and procuratorial work. As such, chief leaders of the provincial party committee have listened to the concerned provincial departments' reports on the handling of major cases and have strengthened the administration of anti-corruption work, deepening the battle against corruption. According to statistics, the province has handled 1,803 cases of discipline violation by party members and placed 1,485 new cases on file for investigation, of which 190 cases involved more than 10,000 yuan. Among the 1,886 party members involved, 72 have official titles equal to or higher than a vice department head (six of them are at the level of provincial department head). A batch of major cases has been investigated and cleared: The bribery case of the Nanping Prefecture Water and Electricity System involved 110 people and 934,000 yuan; the case of the Fuzhou City Sanitation and Anti-Epidemic System, in which 58 people embezzled more

than 700,000 yuan of public funds; and the 330,000 yuan case of bribery and embezzlement involving 110 persons in the Lingde Prefecture Construction System. By cracking down on the violation of discipline, laws can be protected. For example, 49 people in the Fuzhou City Industrial and Commercial Farming, Animal Husbandry, and Fishery Corporation have committed bribery and embezzled more than 2 million yuan of public funds. After this case was cracked, 14 persons were given disciplinary action within the party or administrative disciplinary measures, and 26 were passed on to the judicial departments for handling. More than 3.6 million yuan of financial loss was recovered and the production operation of the Fuzhou City Seafood Supply and Marketing Company, which was affected and near bankruptcy, was restarted. Hence more than 1,000 workers' emotions were placated.

Henan Institutes 'Eight-Point Law' for Cadres

93CM0506B Beijing GUANGMING RIBAO in Chinese
13 Sep 93 p 1

The Hunan Provincial Party Committee and Hunan government recently dispatched a circular to all levels within the party and government leadership calling on strengthening party conduct and ethical administration as well as making an "eight-point law" to be observed by the broader party members and cadres. The circular prohibits party and government offices and their personnel from giving and receiving gifts and negotiable coupons in public business activities. Those who have violated this regulation will be charged with embezzlement and bribery, and will be given disciplinary action within the party or administrative disciplinary measures depending on the degree of violation; those who have violated the criminal law will be taken to court. The circular prohibits the party and government offices from conducting business activities and setting up fraudulent companies. Party and government office personnel are prohibited from accepting rebates and commissions in public business activities, nor can they become brokers charging fees for themselves. All levels of party and government offices are prohibited from providing profit-making services, nor can they use public funds and bank loans to buy stocks or stock ownership certificates. Party and government cadres are not allowed to buy stocks, nor can they engage in second careers. Spending public funds for extravagant feasts, travels, as well as improper car uses are banned. All levels of party and government bodies, especially the leaders, should be strict with themselves, take the lead, and conscientiously accept the masses' observation. The circular also requires all levels of party disciplinary inspection offices, government inspection offices, and the people's procuratorial organs to strengthen observation and inspection, and sternly investigate and deal with accordingly any corruption activities as well as discipline and law violation cases.

Editorial on National Identity Issue

93CM0490A Taipei TZULI WANPAO in Chinese
31 Aug 93 p 3

[Editorial: "What Country Is Taiwan?"]

[Text] In the years of Gan Long [reigning title of an emperor] of the Qing Dynasty in China, a scholar named Dong Tiangong was sent to Taiwan to be an official there. Afterward he wrote a book entitled *Record of My Sojourn in Taiwan*, in which he said, first of all: "Taiwan is the old Kingdom of Pisheye."

The reason that Dong Tiangong went to Taiwan to be an official there, was that Koxinga had surrendered to Emperor Xi of the Tang Dynasty; before this, Taiwan did not belong to China.

Earlier the "Literary Examiner" had pointed out that not only was Taiwan called the "Kingdom of Pisheye," but also Penghu—at that time called the "Kingdom of Liu-qi"—did not belong to China.

Today the People's Republic of China issued a white paper, in seven languages, entitled "The Taiwan Issue and China's Reunification," saying that "since ancient times Taiwan has been a part of China" and that in the 1949 Kuomintang (KMT)-Communist Party of China (CPC) civil war, the defeated KMT fled to Taiwan, and, with the intervention of U.S. forces, there is now today the fact that the two sides of the strait are separated.

History is written by man. Not only is history written by man, but also it is usually completed under the guidance of those in power. The white paper issued today by the Chinese Communists bluntly states that the Chinese Communists want Taiwan but that they do not want Taiwan to join the United Nations. All historical annotations are written based on preexisting wishes and conclusions.

However, from a look at the political development of mankind, we see that if we say that what the Chinese Communists point out today has no significance, then we must also point out that what country Taiwan was always called likewise does not have too much significance.

Then, what is of great significance?

Only "the people's willpower" is of great significance.

However, our "people's willpower" in Taiwan today, because of the different estimates internally by all sides of their advantages and disadvantages, has been offset for the most part.

—Within the ruling KMT, on the one hand, there is a clear understanding that it will be troublesome for the Republic of China (ROC) to continue to exist, and they also think that if they do not take the position that "Taiwan is a part of China," there will be clear and present danger. Therefore, they handle the Taiwan issue by saying that "the ROC is a sovereign, independent country," "Taiwan is a part of China,"

"the ROC in Taiwan wants to join the United Nations," "the ROC equals Taiwan equals the ROC-Taipei, equals East Asia..." and other absurd, complicated formulations.

—Those in the Democratic Progressive Party (DPP), because from the beginning they sprouted and matured in this land, take the position that "Taiwan should be independent." This position, in the general reelection of representatives to the National Assembly, was discredited by the KMT. The figures in the DPP then corrected themselves, saying that Taiwan in fact was already independent and was only awaiting international recognition.

—As a result of the reappraisal by the two parties of the actual advantages and disadvantages, what we see now is that the two parties are pushing for UN membership and that the government regularly allocates money for DPP members to go abroad and publicize the independence proposition, but in Taiwan the KMT still tightly clings to the dogma that "Taiwan's independence is a blind alley."

—Among the broad masses of people, except for the two parties, with their calculation of too many interests, the only way that the true aspirations of the people can be expressed is by the citizen's votes. Among them, some advocate independence, others advocate reunification, and still others have emigrated abroad.

Perhaps in the end China will be reunited with Taiwan and in the end Taiwan will change hands, and those people who hope that Taiwan can be independent, although unwilling, will have to become subjects of China. However, we must today, when the Chinese Communists have issued their white paper on Taiwan, solemnly inform our countrymen in the government and the public:

First, Taiwan is not "autonomous," i.e., it is a part of China. In its long history Taiwan once belonged to China, but there was a disconnection in time. This situation is not different from that of today's Vietnam and Korea, which also for a time belonged to China. It is not different from the situation in which North America once belonged to the British Empire or in which the Philippines once belonged to the United States.

Second, if the majority of the 20 million people in Taiwan hope for reunification, then the KMT need not readjust today's practice. If the majority of the 20 million people hope for independence, then the people have the right and the power to correct the existing policy.

Third, if reunification is the true aspiration of the figures in Taiwan's industrial and commercial circles, then it would not be a mistake now for them to scramble for the mainland. If they only hope for mainland markets and do not want political unity, then their present behavior is

no different from "drinking poison to quench thirst"—seeking temporary relief regardless of consequences.

Fourth, in the new world situation after the fall of the Soviet Union, the people's will has become the individual, specific determining force. Only the 20 million people in Taiwan can answer the question, "What country is Taiwan?"; other forces from the outside—no matter how large—do not possess this determining force.

Party Delegate Views 14th KMT Congress

93CM0490B Taipei TZULI WANPAO in Chinese
25 Aug 93 p 11

[Article by Tai Hui-ch'iu (3141 1979 3808): "Democracy Is Not Yet Successful; Comrades Still Must Work Hard—Coverage of 14th KMT Congress"]

[Text] The curtain has finally fallen on the well-staged 14th Congress of the Kuomintang (KMT). Even after the theatrical troupe broke up, many performers and members of the audience still could not calm down. Some people publicly declared that they would join a new party, some people threatened to quit the party, some people exhorted the Central Committee to list names in order of seniority or position and then develop the party on whatever path would lead to advantage, and some people who had not been nominated or who had been defeated in an election threatened retaliation. All kinds of "theatrical plots" showed that in all aspects the 14th KMT Congress was a complete failure. The framework, functions, way of holding, and attitude of people in charge must be thoroughly revised; otherwise, this kind of congress will continue to be held, and in the end almost every little bit of the KMT's capital will be lost. After a comprehensive survey of the seven-day agenda, I made the following observations and came to the following conclusions:

1. The party workers' practice of voting fraud is clearly pernicious:

During the second plenary session's discussion on whether to install a vice chairman, the traces of manipulation by party workers could be found everywhere. For example, a certain high-level party worker of the Taipei City party branch roamed the hall dissuading delegates from raising their hands to vote; but when the votes were cast, I saw with my own eyes this high-level party worker, who did not have the right to vote, sit straight in a delegate's seat and, passing himself off as a delegate, not raise his hand. According to many party delegates, this phenomenon of "voting by seat" is widespread. If this "seat" voting were discarded, I fear that the number of those approving the bill for adding a vice chairman would have exceeded two-thirds.

When the party chairman was being elected, a party worker who had casted a vote was "arrested" on the spot by delegate Fu K'un-ch'eng [0265 1507 2052]. The congress' working personnel did not publicly explain this

incident and also did not apologize to the whole body of delegates. Opposition parties often ridicule the KMT for depending on voting fraud to grow and thrive. Unexpectedly, up to today, in the elections for the organizations with the greatest power in the party, some unworthy party workers still find it hard to change longstanding abuses and resume their old professions; in dealing with their "comrades" within the party or their bosses, they toady and fawn upon them.

2. In elections within the party, there is extreme vulgarization, monetarization, and deterioration:

All elections are extensions of rational concepts and aspirations. However, in the election for members of the KMT's 14th Central Committee, there were no political views or ideals. In some elections there are tricks such as bribing and sending gifts, inviting guests to a banquet where there is drinking and singing, soliciting favors, changing votes and replacing votes, and taking oaths and making pledges. The phenomena of vulgarity, ugliness, disgust, and deterioration in all election situations, and their collective and simultaneous eruption, really constitute the great proportion of "election evils." In such elections the people who win are not honored, the people who lose are not convinced, the people who voted are not happy, and the people outside the election circles are even less unashamed. With regard to these odious election practices, as well as the party delegates' statements demanding investigations, the party Central Committee made not the slightest peep. How can voters feel that such a party is sincere about being honest and upright regarding reform, and how can the voters think highly of it!

3. There are superficial articles that deceive oneself as well as others:

When the first group investigation was made, I focused extremely conscientiously on two statements on the revision of the party constitution, pointing out parts in which there was a wrong choice of words, the writing was ungrammatical, the functions were duplicated, and the arrangement was inappropriate. In the middle of the session, I left the hall temporarily and chatted with some middle-level party workers outside the hall. They said: "What are you doing so conscientiously? The convener of every group was notified long ago 'as much as possible to make inaction the principle.'" As expected, on the second day of the congress the chairman announced that, except for raising for discussion by the congress "the installation of a vice chairman" and a small number of controversial articles, the remaining articles had been passed according to their original drafts. After the event many party delegates held discussions in private, and they realized that "the statements in the groups were false." I understood that the party Central Committee had the attitude of only wanting the party delegates to coordinate in staging a "big play about revision" and that from this time on they would not make any more statements.

4. There was a total collapse of democratic procedures.

With regard to the "counting heads" way of voting, there must first be a "clearing of the hall," in which people who do not have the right to vote must leave the hall and people who do have the right to vote take their rightful seats. Then "the number of people must be checked," after which they may vote. However, none of the voting at the 14th Congress was carried in accord with this procedure. Therefore, when the number of people was checked, on many occasions after three times the count could still not determine how many people were in the hall. With the number of people raising their hands to vote being more than the number of people checked, strictly speaking, it could be said that none of the voting results at the 14th Congress were correct.

When the vote was taken on whether to install a vice chairman, the democratic process could be overthrown by only relying on one person's statement. Not reviewing the discussion before voting for chairman and hastily demanding that everybody applaud and pass the motion for installing "a certain person" (after which four persons jumped up) was really a covert collective malpractice that added another stain to the party's history. Moreover, in the extended session of the congress in which Minister Wu Pai-hsiung [0702 0184 7160] became chairman, he vigorously peddled the idea of a package voting mode for vice chairman and did not go through the secondary procedures before starting the voting. In the five congresses in which Shih Ch'i-yang [2457 0796 2254] was chairman, in the voting by show of hands for vice chairman, the number of people who showed approval was more than the number of people counted in the hall. The chairman did not recheck the number of people or have a revote, but sleepily announced that the vote had passed, thereby astounding many people.

The chairman at all the sessions turned a deaf ear to many sensitive issues and did not deal with them. Without consulting anyone he announced that the congress was over and refused to discuss the motions, thereby not respecting in the least bit the delegates' rights. And the delegates did not respect each other's right to speak. They often hurled insults at each other, scuffled and came to blows, and even threatened the chairman, thereby showing that the domestic procedures in all aspects at the 14th Congress had been completely cast away and had completely collapsed.

With the falling of the curtain on the 14th Congress, the image and strength of the KMT suffered another heavy loss, and the spirit of those who deeply cherish the KMT also suffered another blow. Heaven help our party! Will heaven help our party?

Bribery at 14th KMT Congress Alleged

93CM0494A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 338, 4 Sept 93 pp 19-24

[Excerpt] [passage omitted] Kaohsiung City Council Director and Secretary-General Ch'en Hsuan-hsu, who

often critiques the current affairs of the central government from a grass-roots perspective, unexpectedly revealed to the public the gold pens, gold coins, gold necklaces, and other bribes received during the 14th KMT Congress, directly and poignantly exposing the corruption of KMT party elections.... He repeatedly claimed that his coming out boldly was not to target an individual person or case, but was because that he felt deep regret for the corrupt practices in the elections. Intra-party elections, in particular, should have a higher standard above the general mood in society. However, the corruption of the party has reached such an extent that people who know the laws still violate laws or chime in with these practices. It has thus become imperative that someone come out to appeal; otherwise, the party will go extinct. "If worst comes to worst, I'll resign! To be a young martyr is still better than to live on in degradation. At least, I have tried to make things change," he said. He usually behaves as an easygoing and smiling person among politicians, but this time, he is unprecedentedly serious and firm. In the late evening of the 25th, Ch'en Hsuan-hsu, for the first time, was interviewed by our staff reporters in the Kao Feng [High Wind] Building of the Kaohsiung City Council. He started out by explaining the reason for his surprising actions and vividly revealed specific evidence related to the corruption of some party representatives, including names, times, locations, and the goods involved. Ch'en Hsuan-hsu said that although this intra-party election saw a wide variety of gifts received including candies, cakes, flowers, fruits, ginseng, tonic, theater tickets, paintings, suits, restaurant coupons, plane tickets, and even soy sauce, receipts of big items such as gold coins, gold necklaces, gold cards, jewelry, travel coupons, as well as banquets and shows were concentrated on the last two days before the election and reached a climax then. This was due to the fact that people chimed in with others and fanned the flame, an unhealthy competition indeed. Thus, this is a systemic and ubiquitous issue, not merely a case involving a small number of people. With respect to the means and location of bribery, some are overt and some covert. There have been cases of delivering to meeting sites, residences, and offices, while some gifts have been forwarded by relatives and friends, with all sorts of tactics and approaches. At first, Ch'en gave a few less embarrassing examples: Tuan Hung-chun's paintings showed some elegance; Chang Hsiao-yan's chocolate was creative and still quite charming; flowers and fruits officially delivered to hotel rooms did not affect the public much, but gave people an impression of trying to get elected by bribery—all this was in fact unnecessary since excessive gifts of this kind are unimpressive and valueless anyway.

Chen laughingly told us another interesting and peculiar case: Kaohsiung City Government Advisor Wang Wen sent a cake to support Lin Yang-kang, and his act was misunderstood as a factional confrontation. Ch'en Hsuan-hsu even jokingly said that he was tempted to write on the cake box, "To Li Teng-hui With Full Support—From Humble Ch'en Hsuan-hsu"; but that was only a joke.

A businessman turned party representative sent out a batch of traditional Chinese medicines and tonic used as aphrodisiacs and people were offended for being considered sexually impotent, resulting in a negative effect.

There was another laughable example: A resident in the northern part of the city named Huang helped other people present gifts, each containing eight Sun City Opera tickets and a horizontal inscribed board, only to give many people a negative impression of being ignorant of the hierarchical differences and of smoothing things over.

The most visible gifts were delivered primarily on the last two days before the election of the Central Committee. However, Ch'en Hsuan-hsu postulated that if these people's names were publicized, they could easily find other people to be scapegoats, and he himself would probably be sued and get beaten up. Thus, it was not worthwhile to do this. Additionally, it would be more effective to work on the system itself. He had reservations about publicizing names when unveiling these cases:

High-grade gold pens, each worth approximately six thousand dollars, were delivered to some party representatives' hotel rooms on 19 August, and a name card of a certain industrial candidate for the Central Committee was enclosed. Maple leaf gold coins, each worth approximately nine thousand dollars, were delivered to hotel rooms in exchange for "an agreement to change ballot tickets." Subsequently, someone telephoned to "remind" these people to stop issuing tickets and to refuse ticket returns.

A pure gold necklace, worth approximately 10 thousand dollars, was also delivered to a hotel room by a relative of an independent running mate from industrial and commercial circles. In addition to the "DM" inscription that was enclosed, the gift was privately numbered and the delivery time was recorded for the sake of routine operational tracking.

Other examples include a few boxes of ginseng which were presented to a principle Kaohsiung City Councilman Ch'en's office one week before the ballot, and campaign details and intentions were explicitly indicated. In addition, a party representative from the south presented to a certain big corporation round-trip plane tickets between Taipei and Kaohsiung. As long as the judicial and inspecting departments are examined closely, it is not difficult to expose the people involved in bribery.

As regards the Kaohsiung Party Representative Association's nominally "publicized" free breakfast coupons, they must have been somebody's "donation," and it is unlikely that that donator could remain nameless. Ch'en Hsuan-hsu believes that this phenomenon will soar every year once started and those party representatives who will not spend such money will not dare to come. Hence, this practice should be stopped.

Another type of gift, which Ch'en Hsuan-hsu deemed "vicious" were the fake gold bookmarks. A three-page name list of the candidates was enclosed, and the presenter claimed to be an officer of a fisherman's association. The gifts were slipped into some party representatives' rooms a week before the ballot. Ch'en Hsuan-hsu assumed that this act was intended to fool the recipients as if "gold cards" were being presented. This would allow them little time to examine the gifts closely before they went to vote. Even if someone should report this offense, it would not become a serious case of bribery, because the gifts were inexpensive gold-coated bookmarks. This idea was indeed to "kill two birds with one stone," getting favorable votes without losing money.

Among the numerous bribery cases during the 14th KMT Congress, one involving an industrial tycoon of the "Wang" family is worthy of note. As reported, not only did he give a banquet served by pretty women, but also had these women take the guests out for fun. This report was denied, but Ch'en Hsuan-hsu validated it. However, he would not tell who was the chief plotter.

In fact, the seriousness of bribery during the 14th KMT Congress was noted by many party representatives who privately articulated and confirmed this problem, often through personal experiences. Big items, such as suits, plane tickets, and gold necklaces have been received more than once. Thus, the seriousness of the problem is apparent.

As regards fruit gifts, some presented a few hundred dollars worth of "dingy-looking pears" and some bought a basket of three thousand NT dollars worth of imported fruits and delivered them door to door. Not only were gifts overwhelmingly exorbitant, but they were even marked explicitly for the purpose of changing votes or stopping votes. Party representatives' rooms were even decorated gorgeously; such a practice would be a piece of news if it would not constitute a bribery case.

Some representatives of the Party Intellectual Youth Association have unanimously pointed out that bribe givers in the northern cosmopolitan district presented mostly fashionable and practical gifts, including gold coins, plane tickets, and so forth. People from central and southern villages, however, usually gave flowers, fruits, and other agricultural produce as gifts, reflecting cultural differences in bribery between city and countryside, as well as between north and south.

Unlike other public employment elections, hardly anybody used cash to buy votes during the 14th KMT Congress and the election of the Central Committee. Only until the Central Standing Committee launched the decisive battle did someone yell out a hint of "500 thousand per vote." But this failed to get a response.

KMT Taiwan Policy Viewed 'Harmful' to UN Entry

93CM0013A Taipei TZULI WANPAO in Chinese
16 Sep 93 p 3

[Article by Hsu Ching-hsiung (6079 1987 7160): "Who Is Obstructing Taiwan From Entering the UN"]

[Excerpt] Recently, with the issue of Taiwan's legal status still open, it has been proposed that this issue must be resolved if there is to be a theoretical foundation for Taiwan to join the United Nations. But if the issue of where Taiwan's sovereignty lies has not been decided, then how can Taiwan become a country, and how can it enter the UN. In reality, Taiwan at present is not ruled by the People's Republic of China or by any other country, hence there is no situation where it can "exercise" its right to self-determination and seek independence. Taiwan people, organizations, and government have already clearly expressed their refusal of Chinese rule, in full "accordance with" international law, and the principles of peoples' self-determination and the priority given to the wishes of native peoples in the UN Charter, hence that Taiwan's sovereignty is subordinate to the people of Taiwan is a fact not open to doubt.

On the one hand, the KMT regime has also proposed a so-called "frozen sovereignty," under which Taiwan would enjoy equal representation with China and seek to create a new international law. However, the PRC is generally acknowledged in the international community as a sovereign country, and why must its sovereignty be "frozen" by the KMT? A country only has one representation. This is a basic principle of current international law, and why should this be overturned by the KMT? The KMT, if it insists on representing China, should in accordance with the principles of international law attack the mainland and replace Beijing's sovereignty as the proper course. The KMT stresses that Taiwan is a part of China, but it is fantasy to imagine that ruling Taiwan is rule of a part of China, and this only encourages the PRC to swallow up Taiwan.

In view of a recent investigative report by TZULI WANPAO directed towards delegations of various countries at the UN, the two primary reasons that various countries in the international community are unable to support Taiwan's admission to the UN are the "mistaken belief that Taiwan is part of China" and "the use of the term Republic of China." However, the KMT regime takes these two factors as the basis for wanting to return to the UN. It is evident from this that if today Taiwan wants to join the UN, the biggest obstacle is not in fact a veto by China, but the false theories and erroneous national policy put forward by the KMT representing the people of Taiwan.

The idea that "Taiwan is a part of China" is an important and useful tool for the PRC to use to attack Taiwan,

because if this position is tenable, then the PRC government, generally acknowledged by the international community as representing China, can with full power independently deal with Taiwan affairs. Various countries not only cannot support Taiwan's admission to the UN, but in even associating with Taiwan they will be accused of interference in China's internal affairs and violating the principles of international law under which the unity of China and its full sovereignty are respected. What many countries believe is that only when China agrees will they be able to support Taiwan's entrance into the UN, because of the misunderstanding that "Taiwan is a part of China."

However, for a long time, the KMT regime has on the one hand echoed the words of the regime in Beijing on "Taiwan being part of China," mobilized scholars and specialists to propagate this theory, and given the common man an unshakable belief in it, in order to undermine the basis for an independent Taiwan sovereignty. On the other hand, it also has not put forward to the international community the proposition that Taiwan does not belong to China, refuting China's argument. In reality, according to the principles of international law, countries do not have the right to consider "Taiwan to be part of China," and China proclaiming that "Taiwan is a part of China" is also completely contrary to existing normal principles of international law and the principle of self-determination.

For this reason, for Taiwan to enter the UN, first, in accordance with international legal theory, it must be clarified that Taiwan is by no means a part of China, but is an independent sovereign country. The international community then can become a supportive force and remove the obstruction and opposition of China.

Second, the KMT's persistent use of the name Republic of China is a major factor giving other countries no way of supporting Taiwan's entrance into the United Nations. After 1971, the ability of the Republic of China and the People's Republic of China to both exist in the international community was lost, and at present attempts to use names related to China are repudiated by the common international recognition of one China and there is no way the KMT can dominate or persist in this effort. In particular, within the international organization that is the UN, the terms Republic of China and People's Republic of China have the same meaning and the Republic of China is substituted for the People's Republic of China. In the 23rd Article of the UN Charter, in the section relating to permanent members of the Security Council, it is still stated in explicit terms the name Republic of China. That the People's Republic of China representing the Republic of China has become a permanent member of the Security Council, just as Russia replaced the Soviet Union, fully in accordance with UN stipulations, is the clearest proof.

Hence, the method used by the KMT to deceive the people of Taiwan, using the term Republic of China the

international community, will only lead to misunderstanding and opposition, and for Taiwan's entry into the UN, it can only be harmful, without benefit, and could even become a pretext for a Chinese attack, and help to erode support for Taiwan among other countries. [passage omitted]

Lawyer Views PRC White Paper on Taiwan Question

93CM0013B Taipei TZULI WANPAO in Chinese
7 Sep 93 p 14

[Article by lawyer Chuang Sheng-jung (8369 0524 2837):
"Review of CPC Black White Paper"]

[Excerpt] On 31 August the PRC State Council issued "The Taiwan Issue and the Unification of China," a so-called "white paper." One need only take a look at its contents to see that it is still an old wine packaged in an old bottle, without any new meaning. At a time when the people of Taiwan are actively "lobbying" for Taiwan's entrance into the United Nations, the PRC "white paper" attacks Taiwan's bid for UN entrance, and clearly attempts to isolate Taiwan in the international arena. This "white paper" abounds in absurdities, as well as "black and white" explanations, and it basically does not satisfy the standards of a white paper. Hence it is more realistic to term it a "black white paper." The falsehoods of this black white paper include the following:

First, the paper states: "The political, military, economic, scientific and technical, cultural, educational, academic, and media-related policies of the Chinese government have the understanding and the support of Taiwan compatriots, Hong Kong and Macao compatriots, overseas Chinese compatriots, and the Chinese people." In reality, everyone understands that the CPC is not democratic, and the reason the CPC is not democratic is that it is a pickpocket, deciding the future of 1.2 billion people as is plain to see, a pickpocket that is, while the Party Central Committee members clap their hands, the People's Congress raises their hands, and the State Council does its work. In terms of the military, it takes cleansing Taiwan through blood as its goal (at least it has not abandoned this), and the economy backs up the military force. Taiwan compatriots do not foolishly give support to a hostile hegemonic country, and as for the other areas such as academic, and media-related aspects, not a shred of freedom of speech exists in China. When it comes to the so-called support of Taiwan compatriots, not only is there a lack of a positive foundation for this assertion, it also goes against all logic, and its gross deception collapses in on itself.

Second, the paper states that "an extremely small number of Taiwan independence elements advocate independence for Taiwan, rashly advocating splitting Taiwan from China. This goes against the basic interests of the whole Chinese people, including those of Taiwan compatriots." Taiwan, since 1949 has in essence been an

independent country, and a sovereign independent country, and this reality has not changed. Advocating Taiwan independence at best is to again reaffirm this fact. Moreover, the interests of Taiwan compatriots and the interests of the Chinese people frequently are at odds, otherwise why would there be a need for the Straits Exchange Foundation to frequently negotiate with the Association for Relations Across the Taiwan Strait? This paper includes Taiwan compatriots in the category of Chinese people, which clearly is not logical, and not in keeping with political reality.

Third, the paper points out that "certain international forces do not wish to see China unified, and persist in by every possible means interfering in China's internal affairs, and supporting Taiwan splittist forces on the island." But if foreign countries do not concern themselves with China's internal affairs, and support for Taiwan by these countries is a foreign relations problem between these countries and Taiwan, how can they be interfering in China's internal affairs? The paper's wishful thinking in maintaining that Taiwan is a part of China is utterly absurd, because if Taiwan is part of China, then why is a person from Taiwan coming to the mainland treated differently than a person from China? Why on Taiwan have we not seen a Chinese official working on this issue? How can the CPC plausibly explain this? If Taiwan is a part of China, then conversely Taiwan can also maintain that China is part of Taiwan, and the two are different only in that one is a small part and one a large part. If the two countries maintain this at the same time, this will damage the nationalist feelings of people on both sides of the straits, and because of this, people will only understand that China is a "seedless watermelon," and Taiwan is not a Chinese "watermelon seed," and will this not result in a struggle for reputation with careless lavishing of praise, thinking the opponent is part of oneself, and even going so far as to fall into the CPC's trap.

Fourth, the paper states that "the Chinese Government firmly believes that large numbers of Taiwan compatriots demand that China be unified, and the majority of Taiwan's government and public political forces advocate a unified China." This argument lacks statistical support, and is hard to believe, though I suppose the CPC for its part believes this. Taiwan already is an independent and unified country, with no internal split, so how can people demand that the country be unified? If there are some people who advocated unification with China, and say this in words and in speaking, in terms of action they deviate from the principle of one China, and in light of the political skills of a person from the Orient, nine times out of ten what he says does not count; practice, and action are what is real. When the CPC says that a governmental and public majority on Taiwan advocate a unified China, it should be understood as not factual, but at best is only talk. Is it possible to believe that it is true?

Fifth, as described above, Taiwan is a sovereign country, with 100 percent of the requisite qualifications for

participation in the international community. The paper harps on the same old theme that Taiwan is a part of China with no power to represent China, adopting what is really the mentality of Ah Q, and when Taiwan participates in international affairs or establishes foreign relations, it represents Taiwan, and does not represent China. The CPC is ignorant of reality in maintaining that Taiwan is a part of China, this is still beyond its reach, why do they not go further and maintain that Russia is part of China, because the Yuan (Mongol) Dynasty in this area established several kingdoms. The CPC, in order to seize Taiwan's plentiful economic interests, does not hesitate to distort the historical facts and reality. Taiwan should seize the initiative to strike back, and tell the people of the world that Taiwan is Taiwan, China is China, one side, one country, one side, one seat, in order to gain the acceptance of the international community.

Sixth, the paper states that "Taiwan's return to the UN would split conduct of the country's sovereignty." This is nonsense. If Taiwan "enters" the UN, it will represent Taiwan, it is not returning to the UN—vying for the power to represent China—these two things are not mutually contradictory. Taiwan would enter the UN to represent Taiwan, and Chinese sovereignty would not be affected, and this would not confuse the international community or cause misunderstanding, and would not harm China's sovereignty. This paper falsely states that Taiwan's entrance to the UN would split its sovereignty,

hardly realizing that it is maintaining its sovereignty, and harming Taiwan's sovereignty, and is engaging in a "hegemonist" taunt.

Seventh, any country can sell weapons to Taiwan and the CPC, if it wishes, can be convinced that Taiwan will not refuse to buy. This paper points out that "countries that sell arms to Taiwan are creating tension in the straits, and this action poses a serious threat to China's security, and is not favorable for international peace." This is the trick of a person who hits someone and then shouts for help. Foreign countries that sell weapons to Taiwan therefore have foreign relations with Taiwan, and how does this affect the PRC? The CPC, in order to facilitate the success of its hegemonic scheme which is like "beating a child," does not want foreign countries to sell arms to Taiwan, because this seriously affects international peace. Yet the PRC has many weapons, superior weapons, so what is there to fear if foreign countries sell arms to Taiwan? If Taiwan has no way to obtain weapons to defend itself against the PRC, the PRC, with big eating small, strong bullying weak, will cause upheaval in the Taiwan straits, and threaten world peace. Countries selling weapons to Taiwan are helping the weak and preventing collapse, and this is the only proper course to maintain the flourishing of world peace. The CPC should support this, but it turns things on their head, and again stands in the way, exposing the fact that it is in fact anti-peace in essence. [passage omitted]

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